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# RISKY BUSINESS

*Employers who improperly classify workers as independent contractors invite big trouble from the IRS.*

AUGUST 1993

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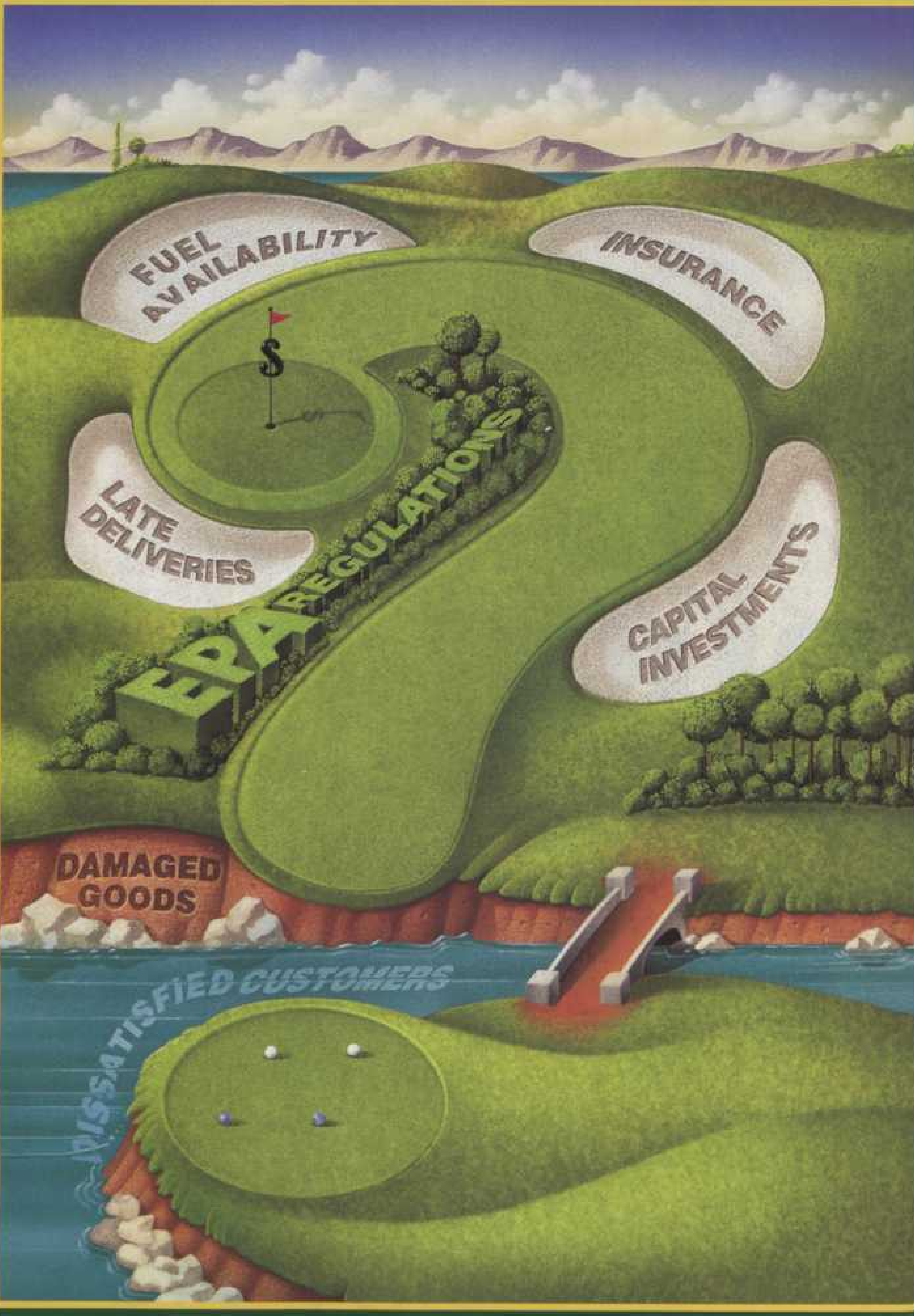
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**Classifying workers** *as independent contractors—not employees—can cut payroll costs but can also trigger IRS audits. Steve Karel, whose roofers are employees, says use of independent contractors gives firms an unfair advantage. Cover Story, Page 20.*

**Woodworker** *Russ Barnard is one of the Kuempel clock firm's highly regarded older employees. Managing, Page 34.*

VOL. 81, NO. 8

# Editor's Note

PHOTO: ©TIM KELLY—BLACK STAR

**Airline owner** *June Morris trims fares and frills in targeting the ranks of infrequent fliers. Making It, Page 14.*

DEPARTMENTS



Cover Design: Hans A. Baum

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## The Rules That Govern Independence

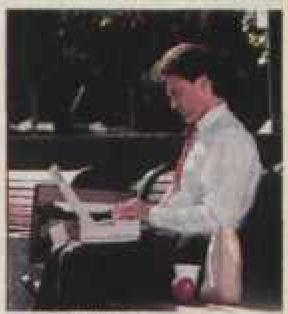
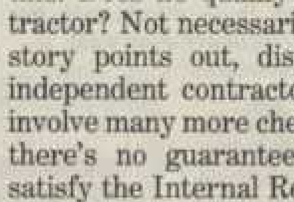


PHOTO: ©SUPERSTOCK

The individual so attentive to his computer in the photo is not working on the premises of the company that pays him, no company supervisor is giving him orders, and he seems to be working independently of the company's routine. Does he qualify as an independent contractor? Not necessarily. As this month's cover story points out, distinguishing between an independent contractor and an employee can involve many more checkpoints. And even then, there's no guarantee that the decision will satisfy the Internal Revenue Service.

As Senior Editor Joan Szabo says in this report, beginning on Page 20, determining whether a worker is an independent contractor or an employee is essentially a tax matter, not a personnel issue, and federal and state tax collectors have stepped up their scrutiny. You might be considering the use of independent contractors instead of adding full-time jobs. As our cover headline says, that can be risky. This in-depth article will help you avoid trouble.

Oregon, which is shown on the map, is one of the many states that are making progress on health-care reform while the announcement of President Clinton's much-delayed national plan falls even further behind schedule. These states see medical inflation as a problem that won't wait, and they are moving ahead of the national government on this issue. Assistant Managing Editor Roger Thompson, our veteran writer on health care, looks this month at what those states have done. This report, starting on Page 29, adds an important dimension to the ongoing debate, which will intensify with the eventual announcement of the Clinton plan.



An employer asked to cite the disadvantages of hiring older workers could offer only one: no company softball team. Otherwise, companies with experience in hiring such workers say they offer much in terms of reliability and the work ethic. Special Correspondent Sharon Nelton's report on Page 34 will give you a new perspective on the potential of this age bracket.

Robert T. Gray

Robert T. Gray
Editor

Nation'sBusiness

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# Letters

## Working Harder Is Not The Only Answer

Your June cover story, "Survival Tactics For Retailers," correctly suggests that small retailers will have to work harder to survive. While there's nothing wrong with enterprise and effort, simply working harder could well be why some retailers are not making it. That approach carries the risk that what we are striving to achieve through these efforts may not really be what customers even want.

The new "time-impoverished" customers view shopping as a burden. In their struggle to accomplish 28 activity hours in one day, increasing numbers of people are turning to retail environments that speak to the growing imperative of getting it done *quickly* and *easily*.

Enlightened, successful retailers are now challenging every so-called service against a relevancy test in today's marketplace.

*Stanford H. Sholem*
*Retailing Management Counselor*
*Champaign, Ill.*


## Inventory Management Is Crucial

I can say without reservation that the likely winners and losers in the retailing shakeout of the 1990s will be determined in large part by the store's investment in and use of sophisticated, computerized inventory-management systems.

I make that statement as the former chief merchant at one of the nation's fastest-growing fashion-specialty chains and as the CEO of a 1993 Blue Chip Enterprise that specializes in microcomputer-based inventory-management and point-of-sale systems for independent retailers.

As small, independent retailers less than 20 years ago, Wal-Mart, Toys "R" Us, The Limited, and Home Depot each aggressively invested in computerized inventory-management systems. Now each is considered a marketing powerhouse. If today's independent store owner continues buying by the seat of his pants, he shouldn't be surprised when he loses his shirt.

*Dave Carrington*
*President and Chief Executive Officer*
*WDC Systems, Inc.*
*Birmingham, Ala.*

## Making Employees Owners Boosts Productivity

Re "The Power of Empowerment" [June]:

While I agree that empowering employees to make decisions is positive, "empowerment" is no substitute for the improved productivity gained by granting employees a significant ownership stake in their company.

Participative management combined with an employee stock ownership plan (ESOP) is an even more powerful and long-lasting motivator than the former alone because the employees benefit financially from their efforts.

In many companies not owned by employees, Total Quality Management and the like are used mostly to get more work out of people for somebody else's benefit. This is not so where there is an ESOP.

*Newton A. Campbell*
*Chairman and Chief Executive Officer*
*Burns & McDonnell*
*Kansas City, Mo.*

## Winners And Losers In Free Trade

So the Institute of International Economics feels that the North American Free Trade Agreement will leave us with a net gain of 171,000 new jobs! [Dateline: Washington, April].

That's just what this country needs—171,000 additional $7-an-hour jobs to replace the 750,000 $15-an-hour jobs already lost to cheap labor in countries with few or no environmental controls and certainly no laws comparable with those in this country for protection of their work forces.

The real winners in the free-trade fiasco are the grossly overpaid corporate executives, lobbyists, and, of course, their paid representatives in Congress.

*Gil Baughn, President*
*Pacific Scale Co.*
*Clackamas, Ore.*

## Factoring As A Source Of Expansion Financing

An item in Women In Business in the May issue describes the difficulties that businesswomen face when seeking expansion financing from traditional lenders. Their problems are exacerbated when the appli-

cants do not have a three-year track record or sufficient collateral.

I suggest that women entrepreneurs consider factoring as a source of capital. When we purchase accounts receivable, it is a gender-blind transaction. Rather than force the businesswoman to jump through credit hoops, we simply rely on the creditworthiness of her clients.
*Jay S. Olins*
*Premium Commercial Services Corp.*
*Huntington Beach, Calif.*

## The Fare For "Lateral Transportation"

After a recent visit to a premier hospital serving the metropolitan Atlanta area, I've come to the inevitable conclusion that the health-care industry itself is the primary reason that health costs are out of hand.

I was suffering from sciatica and was X-rayed. An item on my bill was $49.85 for "lateral transportation." This was the result of a hospital policy requiring that patients be wheeled into the X-ray room. I was perfectly capable of walking and needed no help.
*Murray Sandy*
*Smyrna, Ga.*

ILLUSTRATION: BILL COULTER

## There's More Than One Way To Get Out Of O'Hare

Thank you for the money-saving tips on ground-transportation choices at airports [It's Your Money, June]. I would like to share the following information about the nation's busiest airport, O'Hare:

The subway from Terminal No. 2 is the fastest, cheapest way to reach downtown Chicago; it costs $1.50. A taxi to downtown or McCormick Place costs $25, but you'll save $10 if you ask for a shared ride.

To reach the suburbs without paying a 50 percent surcharge, phone a suburban cab company while you wait for your luggage, or select a regional bus from the schedule outside the Restaurant Rotunda.
*Kelly Warnken*
*Author of* Stranded at O'Hare
*Chicago*

## Treating Symptoms Rather Than The Underlying Cause

Re your article "Business Insurance Will Cost You More" [June], in which you note a proposal for a no-fault system of auto insurance that would be financed by a gasoline tax:

It is a truly strange notion to add insurance to each gallon of gas. Why not each tire? Each quart of oil? Each air filter? Each breath you take?

Where would electric-powered vehicles get insurance? How about other vehicles not powered by internal-combustion engines?

Every time government tries to reform the auto-insurance system, it gets a little worse. We need a return to a doctrine of individual responsibility, the "reasonable (wo)man" standards, and a real prosecution of the professional criminals who prey on the auto system. Anything else is an attempt to treat the symptoms while letting the disease run unchecked.
*Peter C. Osborne*
*The Osborne Agency Inc.*
*East Hampton, N.Y.*

*[Editor's Note: As our article predicted, the "pay-at-the-pump" insurance plan was rejected in a committee of the California Legislature. Sponsors have raised the possibility of seeking enough voter signatures to put the proposal directly to the public via a state ballot question.]*

## The High Cost Of Vehicle Accidents

"Safe Driving Saves Money" [March] makes a compelling case for the return on investment that can be realized through workplace traffic-safety initiatives.

The Network of Employers for Traffic Safety (NETS) recently released a first-of-its-kind study documenting the staggering cost to employers of traffic accidents: $54.8 billion a year, equal to $211 million every working day.

We have known for some time that motor-vehicle crashes are the No. 1 cause of lost productivity and death for the American worker. Now we know the devastating impact that these tragedies have on America's bottom line.

NETS was formed to help employers improve the safe operation of their vehicles. Information about our programs is available by calling (202) 452-6005.
*Terrance D. Schiavone*
*President*
*National Commission Against Drunk Driving*
*Network of Employers for Traffic Safety*
*Washington, D.C.*

## Tax Tinkering Is No Way To Reduce The Deficit

Tinkering with the federal tax code is not the way to deal with the federal deficit and the resulting public debt. Wholesale reform is required.

The time of business managers would be better spent in competing in their markets rather than in attempting to outwit the federal government's taxing schemes.

A gradual shift from taxing the adjusted net income of businesses to taxing gross revenue at a low rate of some 4 percent and removing the hundreds of deductions would produce more revenue and eliminate the costs that business must now endure in complying with existing codes.

A sliding flat tax on individuals with greatly reduced exemptions would have the same effect.

Reducing the demand for federal borrowing would free more capital for the private market. Expansion resulting from less-expensive capital translates into higher employment and a more equitable tax burden.
*R. Dan Ritchie*
*Riverdale, Md.*

*Send letters to Editor,* Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000, and include your phone number. You may fax your letter to (202) 887-3437. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

Entrepreneur's Notebook

By Elizabeth Hays

# For Best Results, Swim Upstream

You've probably heard stories like this before—a start-up that prospered by ignoring a lot of conventional wisdom. But every story is a little different. In our case, my friend and I sidestepped some of the usual business practices and wrote a few operating rules of our own based on contrary thinking that would become conventional for us.

We were two women with English degrees and a love of writing, each with several years of agency experience in advertising and public relations. Neither Alison Davis nor I had any real entrepreneurial experience, however, before we formed Davis, Hays & Co. in 1984.

We had an office, a phone, and precious few clients. We had no financial backing and virtually no capital. Lacking consultants or Harvard MBAs to help us, we easily could have become a case study in how *not* to start a small business.

Nonetheless, in the nine years since we created our own public-relations and corporate-communications company, our firm has expanded to nine employees, has developed a blue-chip client list, and has grown to about $750,000 in annual billings.

PHOTO: STOM SOBOLIK—BLACK STAR

**Elizabeth Hays**: *A contrary approach to success.*

Often, getting results meant swimming upstream. We didn't have enough business training to follow the common paths. So we became a firm with conventional entrepreneurial roots but with contrary approaches to success. Here are examples of the guidelines we formulated:

### Practice Strategic Denial

We virtually ignored the latest recession in our business planning, marketing, and sales projections. While everyone else seemed to be indulging in doom-and-gloom thinking, we never stopped visualizing and planning for success. When the economy was at its worst, we ignored the economic indicators that might distract us, focusing instead on our growth goals.

Strategic denial isn't blind faith. When it works, it's an outright refusal to fall short of expectations. Instead of lowering our sights, we raised the work level. This meant working harder to get and keep each client, being more aggressive—and taking a few more risks—when others were pulling back. The result was a competitive edge.

### Staff For The Future

The difference between having just enough to get by and being a bit overstaffed is that the "extra" people make it possible to accommodate the firm's next level of growth.

Because most entrepreneurs start out doing everything without help, they tend to avoid adding employees, choosing instead to put on more hats as business picks up. The problem with that approach is that a growing business's leaders should focus on improving the business and plotting the future, not on day-to-day details.

### Embrace Technology

Most entrepreneurs are so concerned with staying afloat that they aren't on the cutting edge of technologies that can improve their competitiveness.

Though ours is a small company, we invested very heavily in equipment and technology from the start, eventually even hiring a computer consultant to keep us on top of developments.

As with future staffing, a big commitment of technology can drive up overhead and hold down profitability. That's why so many entrepreneurs won't do it. Managed properly, however, investments in technology will generate bigger profits in the form of increased capacity, efficiency, and valuable client services.

### Drop Unprofitable Accounts

Entrepreneurs often have a hard time turning customers away, even those who cost more than the revenue they bring in. We used to have a lot of unprofitable accounts, meaning we overserviced, undercharged, or both. The challenge for an entrepreneur is to balance profitability with the desire to meet customers' needs. If that balance can't be achieved and a solution can't be reached, the customer probably should be cut loose.

Obviously, conventional operating methods have become standards because they work. But with a contrary approach and an eye for opportunity, an entrepreneur can play by his or her own rules and still win the game. NB

*Elizabeth Hays is CEO of Davis, Hays & Co., Inc., a public-relations and corporate-communications firm in Maywood, N.J. She prepared this account with* Nation's Business *Contributing Editor Charles A. Jaffe.*

*Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor,* Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

## What I Learned

***Management experts frequently lead business owners to obvious if not always appropriate conclusions. Going against those indicators often leads to solutions that are less obvious yet more workable.***

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# Managing Your Small Business

*Designing for the future; involving your customers; going for the green; buying to be free.*

*By Roberta Maynard*

WORKPLACE

## Redesigning Your Image And Your Mission

Interior designers can transform the look of a place of business, of course, but they also can help owners fine-tune a company's mission and develop long-range planning and budgeting.

Sometimes just a single consultation can help a small business do this, says Mary Ann Bryan, an interior designer for 32 years and owner of The Bryan Design Associates, in Houston.

"A good designer helps the client make good, sound investments in their space and establishes a direction for the business to grow in," says Bryan.

This can be accomplished, according to Bryan, by evaluating the business—its customers, products, and growth potential—and taking into account the owner's plans for changes.

"The biggest mistake is trying to get a quick fix" in its appearance, says Bryan. "Buy the best quality possible at first, so you can build on it. I encourage small companies just starting out to put more money in things they can take with them—like furniture—if they grow and relocate. And perhaps use standard building-grade carpet."

On the other hand, a well-established company probably should emphasize paneling, molding, and other more permanent improvements, according to Bryan.

When using designers, be direct, says Bryan. "Tell them exactly what you want, and level with them about your budget." Working with a smaller budget often forces designers to be more creative. ■

PHOTO: SPAUL S. HOWELL—GAMMA LIAISON

**Helping a client choose** *a look for a firm requires knowing its growth plans, according to Houston-based Bryan Design Associates, where interior designer Sandy Lucas explains options to attorney Jeff Kuhn.*

CUSTOMER SERVICE

## How Much Do You Really Value Your Customers?

A big gap exists between companies' actual and potential commitment to their customers, say management specialists at the consulting firm of Rath & Strong, in Lexington, Mass.

The consultants have delineated four categories of a business's engagement with customers, and you can use these benchmark descriptions—with "customer awareness" being the low end and "customer partnership" being the high end—to determine the level of your firm's involvement with customers:

**Customer Awareness.** Your managers' client orientation runs toward: "There's a customer out there." Your customers are viewed in only the most general terms. Your managers don't understand the benefits of the customer-supplier relationship.

**Customer Sensitivity.** A "wall" stands between you and your customers; that is, employees are committed to focusing on customers but hesitate to share much information with them.

**Customer Alignment.** Your staff recognizes the central role of the customer. The firm is at least partly organized according to delivery of service. Customer views are sought via satisfaction surveys, focus groups, and customer visits. Managers spend considerable time speaking with, and about, customers.

**Customer Partnership.** Your customer-service habits rise from techniques to an art. Clients are part of all major issues. Intelligence on customers—for example, survey results—is thoroughly distributed among employees. Managers invite customers to join in product development. Various customer "panels" are integral to the business.

*—Bradford McKee*

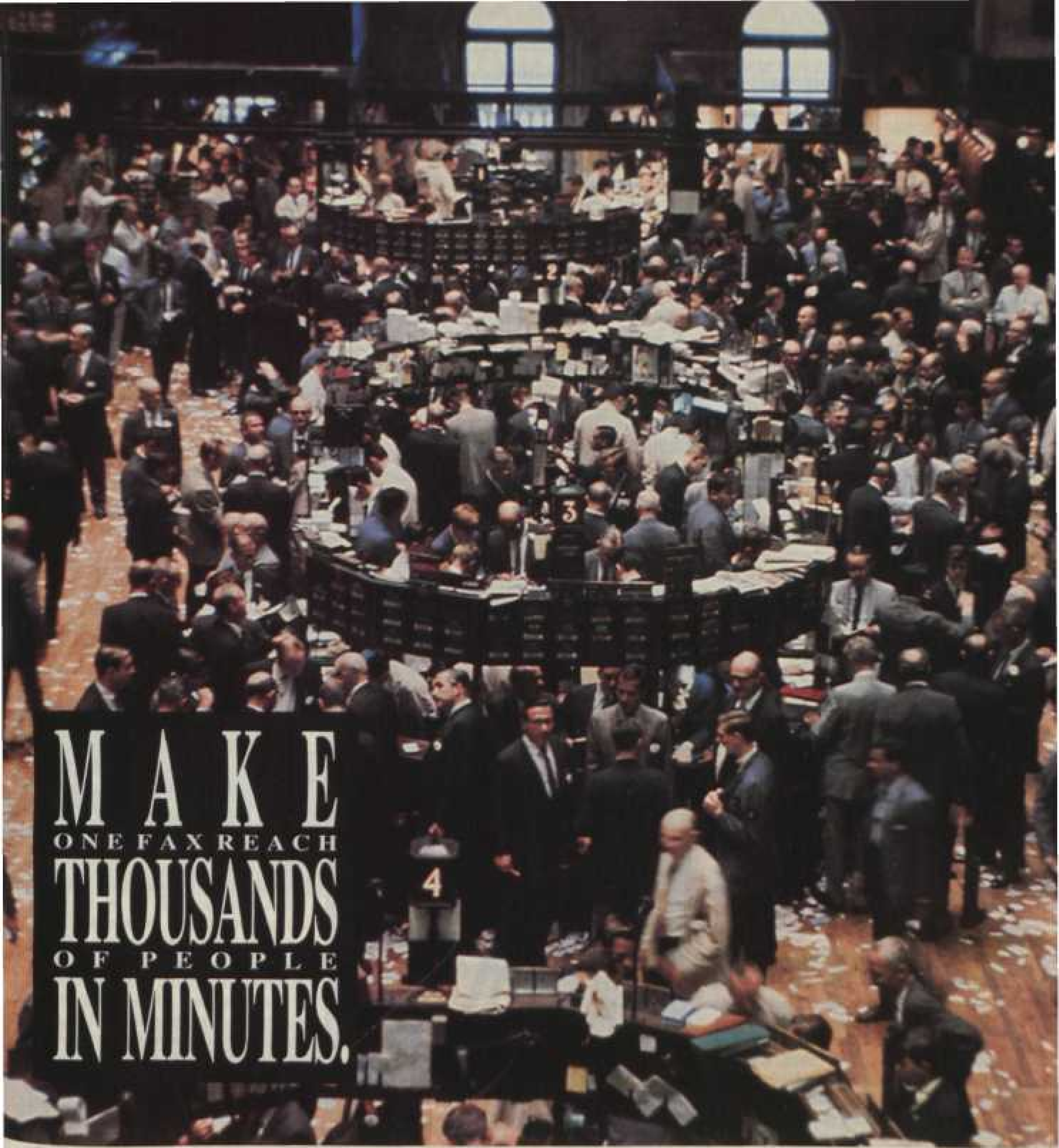
FINDING EXPERTISE

## Could You Benefit From An Outside Adviser?

"An outside adviser with integrity, independence, and vision can help a business in many ways, such as advising about setting company policy or providing expertise in an area that the owner lacks," says Ed Galvin, a partner in the Chicago office of the Coopers & Lybrand accounting firm.

The time to consider bringing one or more outside advisers into a small business, says Galvin, is when it is trying to reach its next stage of growth, such as when it is experiencing new competition, wants to move into new markets, or is branching into new distribution networks.

Advisers may constitute a formal board, or they may simply be individuals willing to share expertise for little or no compensation. Although trust and flexibility are important in such arrange-

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ments, formal contracts can be written if the parties prefer, says Galvin. These may provide assurance to the adviser by spelling out that certain expenses will be paid, for example, or they may comfort the owner by stipulating confidentiality about the business.

(For more on the use of outside advisers, see "Good Advice For Hard Times," on Page 60.)

LEADERSHIP

## Matching The Skill To The Situation

Many companies run into problems because they erroneously assume that one type of leadership is suitable for all situations at all times, says management consultant William T. Rothschild.

The type of leader the enterprise needs changes as the company changes, he says in his recently published book, *Risktakers, Caretakers, Surgeons, Undertakers—The Four Faces of Strategic Leadership* (John Wiley).

Rothschild, who is based in Norwalk, Conn., relates leadership to company development this way:

**Risk takers**—for the embryonic stage. They are visionaries and missionaries and are intuitive, dynamic, and flexible.

**Caretakers**—for the growth stage. This leader establishes systems and policies that permit the organization to stabilize and become profitable. While the risk taker provides much of the energy personally, the caretaker delegates.

**Surgeons**—for the mature stage. They are objective, receptive to challenges, and not tied to the past. Like their medical equivalents, they can move skillfully, decisively, and with a sense of urgency to rid the company of threats to its well-being, realizing that failure to act could cost the patient's life.

**Undertakers**—for the decline stage. They are decisive and compassionate, but they recognize that there comes a time when institutions, like individuals, must die, which can occur through a merger, sell-off of assets, or other cause. While it is difficult to find examples of leaders who became undertakers consciously, there are numerous examples of those who did so unconsciously.

The key, says Rothschild, is to match the leader to the company's situation.

*—Robert T. Gray*

ENVIRONMENT

## Getting A Green Seal Of Approval

Businesses with products that lend themselves to "green marketing" should know about Green Seal, an independent, nonprofit organization based in Washington, D.C., that sets environmental standards for a variety of products. Manufacturers whose products meet those standards may use the Green Seal symbol on products and packaging as well as in advertising.

Green Seal has published standards in 35 product categories, including bathroom and kitchen paper products and printing and writing paper, and it is now developing standards for household appliances, newsprint, batteries, and laundry detergents. It certified its first five products earlier this year.

Most of the products submitted will be tested by Underwriters Laboratories Inc.

Testing fees vary by category and the number and type of products to be tested. The cost of testing one product ranges from \$3,000 to \$5,000. A discount is available for small businesses. "Batching" of similar products reduces the cost.

To recommend product categories or to submit a product for approval, call Green Seal at (202) 331-7337.

ASSETS

## The Benefits Of Buying A Building

Moving from leased to owned office space might be an option worth considering if you feel you need more flexibility. Such a move worked out beautifully for Chicago businesswoman Randi Brill, president of the Quarasan Group, an 11-year-old education development firm with 28 employees. Brill bought a downtown building last year and renovated it to house her business.

PHOTO: [illegible] JOHNSON—GAMMA LIAISON

**Owning a building** *gives creative control to Randi Brill of Chicago's Quarasan Group.*

After leasing for several years, Brill decided she wanted to have creative control of her office space and to be better able to manage its costs. In leased space, she had a choice of two kinds of lights, neither of which she liked. In her own building, she chose the high-quality lighting needed by her designers, and she offset the higher cost by using less-expensive carpeting. She also had wiring installed for fiber optics that she plans to be using within five years.

Brill also gained a tangible asset by choosing to own the building herself and lease it to the company. When the time comes to leave the business, she'll have the flexibility of selling the firm and the building separately or as a package.

To those considering buying, she offers this advice:

- Don't buy property on a lark. Don't rush yourself or let anyone bully you into a purchase. This process requires planning. Brill spent 18 months researching, negotiating, designing, and renovating.
- Get expert advice. Brill had appraisals completed and paid structural engineers and designers to visit sites with her. She spent more than \$10,000 to make sure that the building she bought could be made into the work space she wanted.
- Have a realistic budget. If you feel strapped going in, buying is probably not for you.

NB TIPS

## Help On Family Leave

If you have questions about how to apply the new law on family and medical leave, you can find help in a new booklet, *What You Ought to Know About Family and Medical Leave*. It covers eligibility issues and businesses' obligations under the law. The question-and-answer format makes it easy to find information, and answers are written in clear, straightforward language. The 32-page, pocket-size booklet costs \$5 plus shipping and handling. To order, call Commerce Clearing House, Inc., at 1-800-248-3248.

## Promoting Your Business

A new booklet, *101 Low-Cost Ways to Promote Yourself or Your Business*, offers a bulleted listing of strategies for getting your name out to potential customers. Particularly useful for new businesses, it can also serve as a handy refresher course in local marketing for seasoned entrepreneurs. To obtain a copy, send \$3.50 (shipping and handling is included) to Prince Marketing Works, 1707 Columbia Road, N.W., Suite 507, Washington, D.C. 20009.

NB

# Dateline: Washington

*Business news in brief from the nation's capital.*

TAXES

## Start Preparing Now For Federal Tax Increases

Businesses would be wise to begin planning now for federal tax hikes ahead. While a House-Senate conference committee completes work on a bill to implement President Clinton's budget proposal for fiscal 1994, some tax hikes have already been essentially determined.

Among those generally considered "nonconferenceable"—because they were included in both the House and the Senate versions of the bills being reconciled by the conference panel—is a hike in the top individual rate to an effective 39.6 percent from the current 31 percent. This hike would have a major impact on the 21 million small firms that pay taxes on their retained earnings at individual rates. The House bill included an effective date of Jan. 1, 1993, for this provision; the effective date in the Senate bill is July 1, 1993.

The increase in the corporate rate was also the same in both bills—to 35 percent from the current 34 percent; both bills included an effective date of Jan. 1, 1993.

Businesses will also face higher taxes for business-meal and entertainment expenses, which will remain partially deductible but at a lower level. Both the House and the Senate bills dropped the deductible amount to 50 percent from the current 80 percent.

Businesses are also sure to face higher energy taxes. The only question is what form they will take. The House approved a broad tax based on the heat content of fuels, while the Senate approved a new 4.3-cent tax on motor fuels in its place. A final bill could include a combination of those two.

President Clinton has left himself some flexibility on the tax hikes contained in a final measure. His main concerns are that the bill result in $500 billion in deficit reduction over five years and contain a ratio of about 1-to-1 in tax increases and spending cuts. *—Mary McElveen*

PHOTO: ©TERRY ASHE

**Senate Majority Leader** *George J. Mitchell, D-Maine, left, and Finance Committee Chairman Daniel Patrick Moynihan, D-N.Y., discuss the Senate budget bill.*

## Firms Expect Clinton Plan To Increase State, Local Taxes

About 70 percent of companies expect their state and local tax bills to rise over the next several years as a result of President Clinton's economic plan, according to a recent survey conducted by Coopers & Lybrand, an international accounting and consulting firm based in New York.

Twenty-nine percent of the 375 firms surveyed said they expect "major" increases, 41 percent expect only "minor" tax hikes, and the rest are unsure. The average state and local tax hike expected is about 10 percent.

"Executives seem to be concerned that as the federal government trims down, more of the burden of providing services will be pushed down to the states, which are then likely to look for revenue increases," explains Gene Baroni, head of Coopers and Lybrand's multistate tax services group.

"Also, many respondents express concern that programs formerly paid for by the federal government will become the responsibility of the states, creating even more pressure to increase taxes," Baroni adds.

*—Albert G. Holzinger*

INTERNATIONAL TRADE

## SBA To Teach Bankers The Ins And Outs Of Export Financing

The U.S. Small Business Administration (SBA) will begin providing community bankers with the information and the contacts they will need to meet the export-financing needs of their small-business customers.

Owners of small firms that do not export frequently put the unavailability of financing at or near the top of their list of explanations.

SBA is launching its program, cosponsored by the Bankers' Association for Foreign Trade, with conferences in Denver, July 29; Charlotte, N.C., Aug. 16-17; Houston, Sept. 9; St. Louis, Oct. 13; and Boston, Nov. 9. Additional conferences are expected next year, according to an SBA spokesman.

"The conferences are designed to show small banks how to develop sufficient contacts and expertise to meet the growing international banking needs of their customers," says SBA Administrator Erskine Bowles. "By meeting these needs, the small borrower, the bank, and the local community can all grow together."

The conferences are also designed to explain the work of local organizations such as Small Business Development Centers, which can supplement the international services of small banks.

If you would like to attend a conference or need further information, call the SBA at (202) 205-6720.

*—Albert G. Holzinger*




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# Making It

*Growing businesses share their experiences in creating and marketing new products and services.*

## An Airline Of Her Own

*By Jacquelyn Denalli*

When building or expanding their market share, most companies try to acquire new customers from the ranks of those already buying similar products from other businesses. June Morris, 61, chose a different tactic: She targeted people who were buying either very little or not at all. And defying conventional marketing wisdom, she turned them into legions of loyal consumers.

What makes her accomplishment even greater is that she did it in a business better known these days for rivers of red ink rather than glowing success stories: the commercial airline industry.

"From the day we started, our flights were based on low fares, and our strategy was to make air travel affordable to people who were not traveling," says Morris, the founder of Morris Air. A no-frills approach and extraordinary attention to cost control put the Salt Lake City-based carrier aloft and keeps it flying debt-free and profitably.

Morris began her travel career more than 30 years ago doing secretarial work and later operating a travel agency for the American Automobile Association of Utah. She struck out on her own in 1970 and founded Morris Travel Corp., now one of the nation's largest travel agencies.

She formed Morris Air Service in 1984 as an air-charter division of Morris Travel; the first charter flight to Hawaii carried 80 passengers. In 1987, the two companies were separated and began operating as independent corporations. (Morris has since sold most of her interest in Morris Travel.)

From the beginning, Morris Air Service's passengers paid a fraction of the fares charged by major airlines serving the same routes. The goal was not to pull passengers from other carriers but to create a new travel market of people who would otherwise drive or not go at all. "Morris' competitor is the bus station," one airport official told a trade journal.

"By making travel affordable, we expanded the market enormously," Morris explains. "For example, in the first quarter of 1992, Delta was doing 12,000 passengers to Oakland [California] from Salt Lake City. When we came in with our flights, Delta dropped to 8,000, so we picked up 4,000 of their travelers. But we did 50,000 passengers," which means that Morris Air carried 46,000 people who previously were not traveling by air.

The major carriers fought back. They reduced fares and increased bonuses such as frequent-flier miles, and they complained to the U.S. Department of Transportation that Morris was doing business more like a scheduled airline with its own planes and regular service than like a charter service that simply leased seats on other companies' aircraft. Morris' re-

**Affordable air fares** *opened the market of nonfliers for June Morris' fast-climbing young airline, based in Salt Lake City.*

PHOTO: STEVE KELLY—BLACK STAR

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sponse: "We just had to ... become an airline."

When the Transportation Department granted airline certification in December 1992, Morris Air Service became Morris Air, and June Morris became the nation's first woman owner and CEO of a jet-service airline.

The company pays careful attention to expenses. An internal program known as Project Six aims at keeping costs at 6 cents per seat mile—markedly below the average 10.5 cents per seat mile for all airlines' domestic service. Passengers are served inexpensive snacks rather than full meals, and all 17 planes—two owned and 15 leased—are Boeing 737-300 aircraft, which minimizes maintenance and training expenses.

"When we operate at these low fares, we make a profit," Morris points out. "When the majors operate at the low fares, they lose money."

Before Morris Air was in the Los Angeles market, she notes, "the walk-up round-trip fare from Salt Lake was $600. It's $118 now. I think people realize that if we were gone today, the fares would go right back where they were tomorrow."

Morris Air's gross sales jumped from $80 million in 1991 to $140 million in 1992, and Morris, who employs 1,500 full-time and part-time employees, expects 1993 to be even better.

"When people get used to traveling, they expand their own horizons, and it stimulates the whole industry," she says. "That will keep us and a lot of other people in business." ■

*Jacquelyn Denalli is a free-lance writer in Orlando, Fla.*

# Power Players

*By Steven B. Kaufman*

It was January 1989, and Abby Aldecoa and Larry Miller knew they had cooked up something hot: a radically redesigned lead acid battery for use in portable computers and for other applications. Their battery would be substantially cheaper and longer-lasting than the type most commonly used in computers today.

Excitedly, they contacted 30 venture capitalists, confident they would attract the capital needed to transform their idea into a lucrative business.

Unfortunately, Aldecoa recalls, "we couldn't even get an audience." Venture capitalists were not interested because it wasn't obvious how big portable computing would soon become.

But the two veteran Silicon Valley engineers persisted, and today their company, Portable Energy Products Inc., of Scotts Valley, Calif., looks highly promising. In May, PEP, as it's known, captured $6.7 million in its third round of venture capital, and three computer manufacturers are designing the battery into their portables.

Four years ago, several well-financed Silicon Valley start-ups, as well as Apple Computer, were hard at work developing better portables. But it was obvious to longtime friends Aldecoa and Miller that the batteries upon which they would rely offered too little for too high a price. "We knew we had a great opportunity because we could make a battery at least as good as anything on the market—and charge much, much less," Aldecoa says.

Depending on how a portable computer is used, the lifespan of PEP's battery is almost double that of commonly used nickel-cadmium batteries. PEP's biggest advantage is that lead acid batteries cost well under half the price of nickel-cadmium batteries and compare even more favorably with up-and-coming nickel-metal-hydride batteries.

"Laptops will soon be selling for less than $1,000, and then users won't want to pay $100 to $200 for batteries and chargers," says Gene Fischer, a general partner at Pathfinder Ventures, in Menlo Park, Calif., an investor in PEP's latest venture round. "The company will do well simply by delivering a much-lower-cost product offering roughly comparable performance."

To make inherently bulky and inefficient lead acid batteries an acceptable power source for portable computers, Aldecoa and Miller had to design elaborate, microporous fiberglass blotter paper containing sulfuric acid, one of the battery's two active ingredients. The other—lead oxide paste—is spread along a thin, perforated lead foil plate, which is far lighter than the lead grids used in standard lead acid batteries and thus boasts much greater energy density.

A few months after Aldecoa and Miller were initially rebuffed by venture capitalists, they came upon a "champion"—Gene Carter, a former Apple Computer executive—who contributed $100,000 to finance their development of a prototype battery, completed in September 1989.

Robert Teal, then a venture capitalist at Capform Partners in Palo Alto, Calif., learned about the battery and got excited. He happened to have a desk drawer full of $75 cellular-telephone nickel-cadmium batteries—all dead. None had lasted as long as three months, Teal recalls.

Capform soon became the lead investor in PEP's first $1 million round of venture capital in May 1990. This past February, Teal further underscored his enthusiasm by signing on as the company's chief executive, a role that Miller had played. In May, the company shipped $50,000 worth of batteries, up from $30,000 in April and $20,000 in March, and Teal projects monthly sales of $700,000 by year-end.

Teal already has his eyes on the public market—four battery companies went public in the last year alone, none with revenues or earnings. "The demand for better batteries for portable computers is finally being recognized," he says. ■

*Steven B. Kaufman is a free-lance writer in San Jose, Calif.*

PHOTO: ©ROBERT HOLMGREN

**Battery developers** *Abby Aldecoa, left, and Larry Miller persevered to obtain backing; at right is CEO Robert Teal, a former venture capitalist.*

# In Remington's Footsteps

*By Michael Barrier*

Visitors to Bozeman, Mont., can't help noticing the work of Harvey Rattey and his wife, Pamela Harr. It fills a display case near the airport's ticket counters, it's publicized by rack cards at local motels, and it's on view at a half-dozen restaurants.

Rattey and Harr are sculptors in bronze, and they own a small business, Bridger Foundry & Gallery, which sells their work through galleries (including one in the basement of their home just outside Bozeman) and a mail-order catalog. Their success in meeting the challenges that face a small business led early this year to their being named a Blue Chip Enterprise for Montana, as part of the annual awards program sponsored by Connecticut Mutual Life Insurance Co., the U.S. Chamber of Commerce, and *Nation's Business*.

Rattey's statuettes, in particular, invite comparisons with the work of such famous artists as Charles Russell and Frederic Remington. Like his illustrious predecessors, Rattey deals in Western themes—cowboys, Indians, and animals.

Rattey, 54, could almost qualify for a role in one of those sculptures himself. He considers himself a Native American—he's one-fourth Assiniboin Indian—and before he became a sculptor, he was a cattle rancher.

He was riding in rodeos on weekends, and he wanted a bronze sculpture of a cowboy roping a calf. "I knew one guy who was making them," he says, "but he wouldn't cut me a deal. He said, 'Why don't you try making your own?' So I did." He began sculpting in the spring of 1970.

As Rattey tells it, working in clay for his bronzes came easily to him: "I had no problem with it." (The making of bronzes begins with a sculpture in clay or wax, or a combination, from which a mold is made.) Only after he started sculpting did he get any formal art training.

Until he began sculpting, Rattey intended to remain a rancher: "I had a real nice bunch of cows, and I was so proud of them." But working with clay had stirred another kind of ambition in him; and his first wife (they later divorced) wanted to move. That August, at the age of 32, Rattey left the ranch, determined to make a living as a sculptor, and moved to Bozeman.

He became a sort of traveling sculpture salesman. "I knew a lot of the ranchers between Glacier National Park and the North Dakota border," Rattey recalls, "and I'd just go to their homes."

Harr began sculpting soon after Rattey did; but that was long before they met. She was a physical therapist in the Tacoma, Wash., public schools; then her husband, an Army captain, was killed in Vietnam, in July 1971. While she stayed with friends on an Oregon ranch, she began sculpting. She met Rattey in 1976, at a Western art show, and they married the next year.

PHOTO: T. MICHAEL KEZA

**Art and business are married** *in bronze by sculptors Pamela Harr and Harvey Rattey in their Bozeman, Mont., workshop.*

They were a good match: Rattey had a talent for selling his sculptures on a one-to-one basis, Harr for marketing in a more organized way. "When Harvey and I met," she recalls, "I had lots of bronzes and not very many buyers, and he had lots of buyers and not very many bronzes."

"Pam is really businesslike," Rattey says. "I had all kinds of names—1,500 of them—of people I'd sold art to; I didn't know what to do with them." Harr combined those names with those of her own customers, to make up a mailing list for a catalog, and she and Rattey began traveling to Western art shows in many parts of the country.

At those shows, they could take advantage of Rattey's talents as a salesman. He attaches great importance to personal contact with the people who buy his sculptures: "Sometimes, at a coffee shop at a big show, I might eat seven or eight pieces of pie in an afternoon."

Harr says that "about 60 percent of our total effort is in marketing, and almost 40 percent is in manufacturing. Less than 5 percent is in actually creating the work."

Harr, 49, still sculpts—her subjects include children and carousel horses—but much less than Rattey. "Harvey can sit in the kitchen while I'm cooking dinner, and the kids are arguing, and grind out the sculptures," she says. "I have to have the laundry done and the house clean."

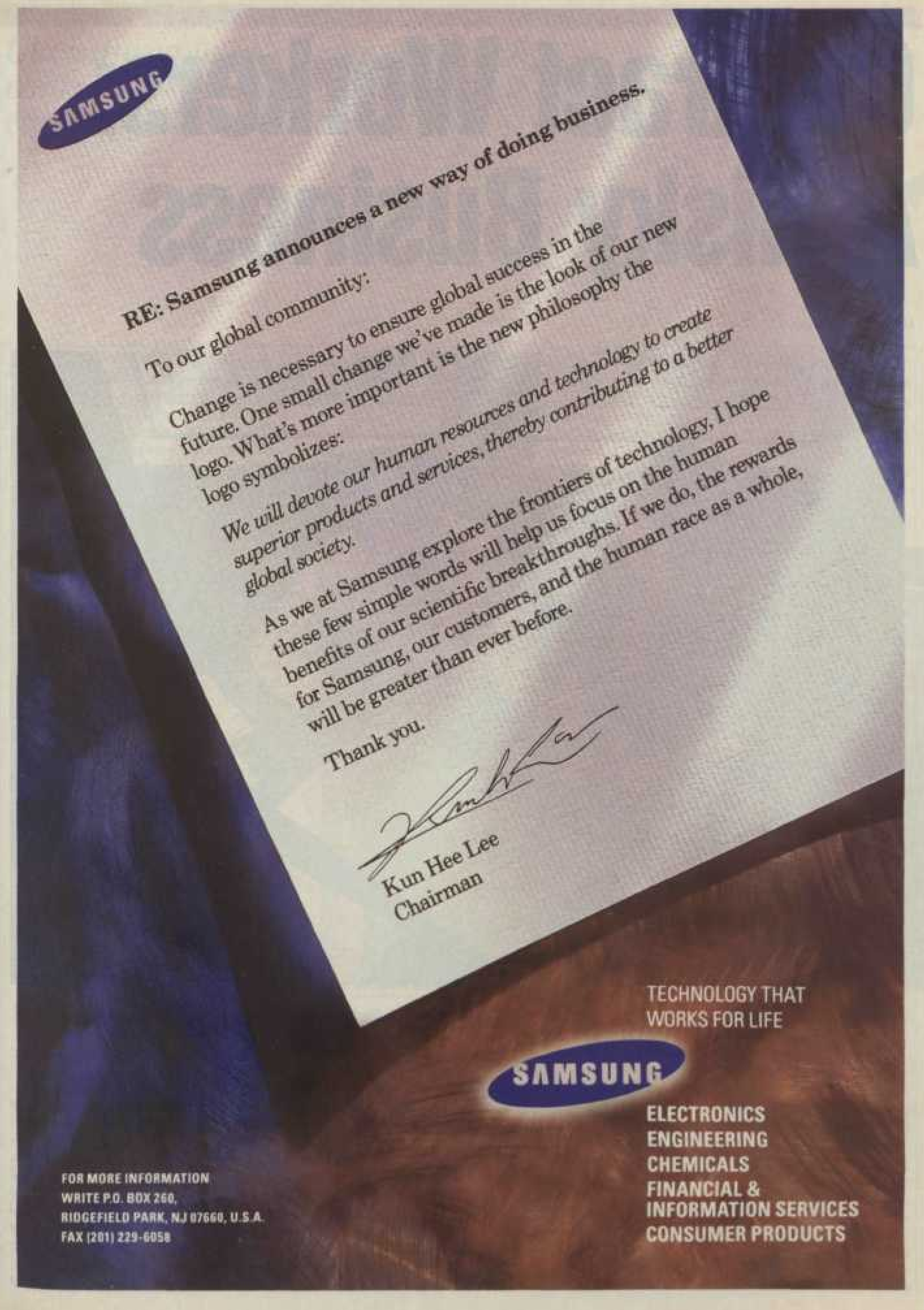
But, she says, "I enjoy the office part. There's nothing as calming as just sitting down and balancing the checkbook."

They built a complete foundry when they got married, but now the actual pouring of the bronze into the molds is done by a foundry nearby; that way, Rattey says, "I can get by with two fewer employees." They usually employ from five to nine workers. In 1992, they sold more than 1,400 bronzes and had total revenues of about $400,000.

Back when he was still traveling a lot, Rattey recalls, he was swamped with orders—and needed the money. "I might drive home from Omaha—almost a thousand miles—without sleeping, get home at 3 in the morning, and start casting at 5:30."

Now, he says, "I really don't think I want to get any bigger. Our home is paid for, we have a good savings account—and I want to enjoy our children." (They have two adopted Indian children, both of whom have just made their first bronze sculptures.)

"I've watched a lot of the people who want to play big shot," he says, "and they start hitting these big shows, and maybe they make a lot of money at it. But the biggest share of them I've seen have wound up getting a divorce every three or four years. Why work like that, if you're going to ruin your family? That's what life is about." NB



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COVER STORY

# Contract Workers: A Risky Business

*By Joan C. Szabo*

PHOTO: [illegible] STEINBERG—BLACK STAR

**Employee-classification rules** *can lead to costly disputes with the IRS, says computer-firm owner Judi Jaskiel, right. With her is office manager Joan Zona.*

When Judi Jaskiel launched Jas-Tech, Inc., in 1982, she followed the computer industry's traditional practice of using independent contractors on various consulting projects. But her company, a Cleveland firm that designs custom software systems for large businesses, no longer uses independent contractors, she says, because tax laws make it too difficult to distinguish them from employees.

Even though Jaskiel has discontinued the practice, the Internal Revenue Service recently audited her back payroll records and assessed her company $287,000 in taxes, interest, and penalties for misclassifying workers as independent contractors in 1987, 1988, and 1989.

Jaskiel, who has 100 regular employees and $7 million in annual sales, maintains that the workers in question were properly classified, and she intends to challenge the IRS's hefty tax assessment. She says she followed all the necessary IRS income-reporting requirements concerning independent contractors.

Jaskiel adds that she heard from an industry source that the IRS inquiry had been triggered by one of her competitors.

Another small-business owner in a dispute with the IRS over independent contractors is Barbara Rutledge, president of Apollo Drywall, in Lansing, Mich. Rutledge's firm, which once had annual sales of about $200,000, is not in operation now because, she says, her four-year legal battle with the IRS drained her company of the resources it needed to stay in business.

The IRS claimed the workers Apollo

# *Classifying workers as independent contractors can cut payrolls, but it also can trigger costly IRS audits.*

hired to keep up with its heavy workloads in 1986 and 1987 should not have been classified as independent contractors. Like Jaskiel, Rutledge had met all the necessary IRS income-reporting requirements on her independent contractors.

Rutledge won her case in the U.S. District Court for western Michigan in 1992 but is still waiting for the government to refund more than $26,000 assessed by the IRS in 1990 for worker misclassification, plus $10,000 in interest and more than $16,000 in attorneys' fees.

Jaskiel says she differentiated the independent contractors from regular employees by exercising control over only her employees. As evidence of this control, she says she gave employees training, expected them to follow the rules of conduct outlined in an employee handbook, reimbursed them for expenses, gave them benefits, and required them to file regular progress reports and work full time for JasTech. None of this was done for the workers she considered to be independent contractors, Jaskiel says.

Rutledge says she made similar distinctions between her employees and independent contractors. For example, she gave her employees specific working hours, told them which rooms to work on, gave them benefits, and expected them to work full time for Apollo.

Jaskiel and Rutledge are just two of the many thousands of small-business owners who have become the focus of IRS payroll audits to determine if the companies have misclassified workers to avoid paying withholding and employment taxes.

The vast majority of penalized firms have less than $3 million in assets, says Rep. John M. Spratt Jr., D-S.C., chairman of the commerce subcommittee of the House Government Operations Committee. Spratt held a one-day hearing on the issue in early June so that he and other new members of the panel could "formulate a position on this complex matter," he said. He stated that the subcommittee will "examine the complaints by independent contractors and businesses that use them that [the] IRS is unfairly penalizing them when they try to comply with confusing federal tax laws."

Patrick Hanes, who represented Rutledge and is a partner in the Lansing, Mich., law office of Howard & Howard, says the independent-contractor problem could prove to be one of the costliest tax-enforcement issues facing small business today. And small companies are especially vulnerable to the potential problem because they need the flexibility of hiring independent contractors to meet the fluctuations in market demand for their products and services, particularly in a period of high economic uncertainty such as business now faces.

In addition, smaller firms lack the resources to challenge the IRS either through the agency's appeals process or in the federal courts.

Some of these companies face economic ruin as a result of determinations reached in the payroll audits, says Nancy Joerg, a senior attorney with the St. Charles, Ill., office of the Wessels & Pautsch law firm. "In many instances, the amount of back employment taxes [owed] is utterly staggering," says Joerg, an authority on the tax implications of independent contractors.

The IRS has been stepping up audits of smaller companies over the past few years in an effort to bring in about $2 billion in revenue annually that the agency contends is not being collected from a growing segment of the labor force known as "contingent" workers. The contingent work force consists of contract workers, self-employed individuals, part-time workers, and those who hold second jobs.

As more companies have reduced their ranks of full-time employees, the number of independent contractors and other


**Though she and her lawyer,** *Patrick Hanes, defeated the IRS in court, owner Barbara Rutledge says the fight drained her firm of resources needed to stay in business.*

PHOTO: STEVE WOIT

**All his workers** *are employees, not independent contractors, says roofer Steve Karel, and that costlier classification puts him at a competitive disadvantage.*

categories of contingent workers has increased. "These new employment relationships are being used by companies to keep employment costs low and help make firms more adaptive and responsive in today's highly competitive business environment," says economist Audrey Freedman, president of Audrey Freedman & Associates, an economic consulting firm in New York.

Although the IRS has no exact figure on the number of independent contractors, Tony Warcholak, director of the IRS's Employment Tax Administration and Compliance Division, says that "what we are seeing is a trend toward classifying more and more workers as independent contractors."

That trend is indicated by the increase in the number of federal tax returns filed by sole proprietors; that category of filers, who use federal income tax Schedule C, includes many independent contractors. In 1985, nearly 12 million taxpayers filed returns as sole proprietors; by 1990, the number had reached nearly 15 million, and the 3 million additional proprietors undoubtedly include many offering their services as independent contractors.

From 1988 to 1992, the agency reclassified more than 400,000 workers from independent contractors to employees and collected $52.5 million in back taxes. In 1992 alone, the agency undertook 1,700 audits of businesses, reclassified 90,000 workers, and collected $19 million in tax assessments.

The IRS says it is focusing its compliance efforts on firms in industries that employ sizable numbers of independent contractors. Among them are the computer, medical, entertainment, construction, and travel-and-resort industries. The IRS adds, however, that its audits are by no means limited to those industries.

In addition, a number of states, certain that they are losing out on revenues they should be receiving from both employers and independent contractors, are aggressively pursuing firms that are thought to be misclassifying workers. Those states include California, Georgia, Illinois, Michigan, New York, and Texas.

The independent-contractor issue can arise for employers when they decide whether their workers should be classified as "independent contractors" or as "employees" for federal tax purposes. If the worker is classified as an independent contractor, the business must report payments for services of more than $600 each year to the IRS and to each worker by using Form 1099 Misc. The independent contractor pays his or her own income, Social Security, Medicare, and unemployment taxes, and workers' compensation insurance.

In addition, because independent contractors are not covered by employee benefit plans, employers have lower costs for pension plans and health insurance.

(Independent contractors are covered by federal workplace laws such as the Fair Labor Standards Act, workers' compensation laws, and state unemployment-insurance laws.)

The arrangement offers benefits not only for the employer but also for the independent contractor. Independent contractors may deduct 100 percent of expenses related to self-employment, whereas employees may deduct only those business and miscellaneous expenses exceeding 2 percent of adjusted gross income. Many individuals also prefer to be classified as independent contractors because they like working as individual entrepreneurs rather than under a boss's supervision.

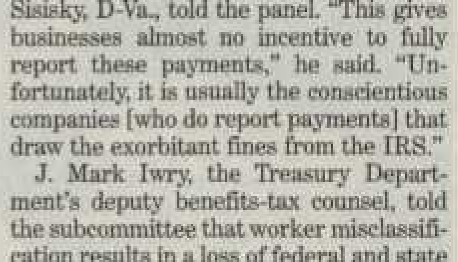
If the IRS finds that a company like JasTech or Apollo has misclassified workers, the firm is hit with hefty tax assessments that may span several years. These assessments cover income taxes; the employer's and the employee's share of Social Security and Medicare taxes, which amounts to 15.3 percent of wages; and federal and state unemployment taxes. Interest and penalties are also assessed.

Worker classification has raised so much confusion—and so much resulting ire—among small businesses that some federal lawmakers have grown concerned about the IRS's activity in this area. At the recent House subcommittee hearing, a number of trade association representatives expressed frustration with the uncertainty of the existing law and asked for legislative changes to clarify the classification rules.

In addition to the confusion over the IRS guidelines, another drawback of the current law is that the fine for not reporting service payments to independent contractors is only $50, Rep. Norman Sisisky, D-Va., told the panel. "This gives businesses almost no incentive to fully report these payments," he said. "Unfortunately, it is usually the conscientious companies [who do report payments] that draw the exorbitant fines from the IRS."

J. Mark Iwry, the Treasury Department's deputy benefits-tax counsel, told the subcommittee that worker misclassification results in a loss of federal and state income taxes and self-employment taxes for which independent contractors are responsible, especially when the firms for which they work fail to file a Form 1099 with the IRS. The agency's studies indicate that tax compliance is lower among workers classified as independent contractors than among those classified as employees.

Addressing this concern, the U.S. Chamber of Commerce has urged Congress to review the IRS's computerized data to decide if the agency is capable of cross-checking the data to determine if a worker has paid taxes; thus, the burden of



making such determinations would be lifted from companies.

To determine a worker's classification, the IRS looks primarily at whether an employer has "control" over what work must be done and how it must be done. The IRS examines 20 aspects of the worker's relationship with the company. Each aspect is drawn from principles of common law and is typically expressed in terms of an employer-employee work arrangement. (See the chart at right.)

The IRS, however, does not say how many yes answers it requires before deciding a worker cannot be called an independent contractor. The agency simply judges all the facts and circumstances in making its determination.

Attorneys and accountants who represent small firms in their attempts to fight IRS reclassification say the 20 tests contain a number of gray areas that result in different and conflicting interpretations on classification.

Another source of confusion for small-business owners is that some states' guidelines for classifying independent contractors differ from the federal government's. Moreover, state governments and the IRS exchange information regularly during audits, and "many times, a state audit will trigger a federal one," says Chicago accountant Richard S. Meyer, whose firm advises small businesses on the issue. States often find out about the classification of workers when an independent contractor who is out of work files for unemployment compensation, which involves a review of the applicant's employment situation.

Congress has looked at the independent-contractor problem several times. In the 1970s, the IRS engaged in a similar drive to reclassify independent contractors, and complaints from small firms were so numerous that lawmakers enacted a safe-harbor provision to give employers some relief. Under the provision—Section 530 of the Revenue Act of 1978—a company may use independent contractors if those individuals were not treated as the company's employees in the past, if the company files all required tax and information returns, and if it has a "reasonable basis" for treating the worker as an independent contractor.

A reasonable basis acceptable under Section 530 would be a ruling that supports the company's position, or a previous IRS audit in which the independent-contractor treatment resulted in no assessment, or a long-standing industry practice. If a company is protected under Section 530, it is not subject to back taxes or penalties, and it is not required in the future to withhold income taxes from contractor payments or pay employment taxes on independent contractors.

"A lot of firms have been able to prevail over the IRS using Section 530," says Harvey Shulman, an attorney who handles audits in many industries and serves as counsel to the National Association of Computer Consultant Businesses. But in 1986, Congress "singled out the engineering and computer industries and said these industries can no longer get this protection," he says. As a result, these individuals must be classified as employees or independent contractors using the common-law tests.

In addition, there are specific types of

## The 20-Point Test For Classifying Workers

In deciding if a worker is an employee or an independent contractor, the Internal Revenue Service seeks to determine if the employer has the right to control and direct what the worker does. If the employer does have such a right, then the worker generally is regarded as an employee, not an independent contractor. The IRS makes its determination by using the following 20-point test drawn from principles of common law. If a number of the points describe the worker's relationship to the employer, then the IRS may decide that the person cannot be classified as an independent contractor.

### The worker is generally an employee if he or she:

1. Must comply with the employer's instructions about the work.
2. Receives training from or at the direction of the employer.
3. Provides services that are integrated into the business.
4. Provides services that must be rendered personally.
5. Cannot hire, supervise, and pay his or her own assistants.
6. Has a continuing relationship with the employer.
7. Must follow set hours of work.
8. Works full time for an employer.
9. Does his or her work on the employer's premises.
10. Must do the work in a sequence set by the employer.
11. Must submit regular reports to the employer.
12. Is paid regularly on the basis of time worked.
13. Receives payments for business and/or traveling expenses.
14. Relies on the employer to furnish tools and materials.
15. Lacks a major investment in facilities used to perform the service.
16. Cannot make a profit or suffer a loss from his or her services.
17. Works for one employer at a time.
18. Does not offer his or her services to the general public.
19. Can be fired at will by the employer.
20. May quit work at any time without incurring liability.

CHART: AMY PUGLISI

workers that the Internal Revenue Code considers as employees. These are full-time life-insurance salespeople; agent-drivers or commissioned drivers who deliver meat, vegetables, bakery products, beverages (other than milk), laundry, or dry cleaning; and home workers performing work according to the employer's specifications on materials or goods that are furnished by the employer and must be returned to the employer.

While many business owners say the IRS investigations and audits are excessive and misdirected, not all business people agree with this assessment. Steve Karel of Garlock-French Roofing, in Minneapolis, classifies all his workers as employees and argues that the use of independent contractors by his competitors gives them an unfair advantage in landing contracts for roofing jobs.

Karel says he is losing business to roofers who use independent contractors. Their labor costs are far lower than his, and they offer their services to customers at a lower price than he can afford, he says. On one small residential roofing job, Karel estimates that his costs were $1,000 more than a competitor's. "It is not difficult to understand why we didn't get that job," he says.

Karel says that when workers' comp rates "started to increase, more [roofing companies] looked for a way to get an edge on the competition." They started using independent contractors, thus avoiding the costs of workers' compensation coverage. Their other labor costs, such as employee benefits and unemployment compensation, also declined.

"I will be the last to go across the line," Karel says. "But if I can't make a profit doing the things the way we are doing them, then at some point we have got to make the change."

One way companies can try to head off problems with federal and state tax collectors on use of independent contractors is to use a third-party payroll service. Under this arrangement, the worker is chosen by the company, but the third-party service pays the

PHOTO: ©TERRY ASHE

"There always is going to be some jeopardy to firms that use contractors."

—Attorney Harvey Shulman

PHOTO: ©TERRY ASHE

Congress is examining complaints "that [the] IRS is unfairly penalizing" firms.

—Rep. John M. Spratt Jr.

## Major Differences In Tax Treatment Of Employees And Independent Contractors

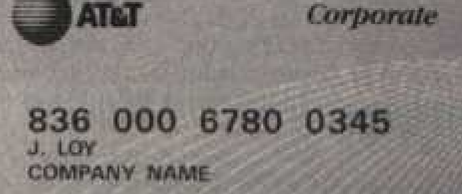
| | Employees | Independent Contractors |
|---|---|---|
| **FRINGE BENEFITS** | ■ The value of many employer-provided fringe benefits is excluded from income and employment-tax bases. | ■ Qualified retirement-plan contributions are excluded from income but not from the self-employment tax base.<br>■ Twenty-five percent of health-insurance costs is deducted from income but not from the self-employment tax base. (This provision has lapsed but is expected to be reinstated.)<br>■ Few other fringe benefits are excluded from income or self-employment tax bases. |
| **TRADE OR BUSINESS EXPENSES** | ■ May be deducted from income-tax base only by individuals who itemize and only to the extent that expenses exceed 2 percent of adjusted gross income.<br>■ May not be excluded from employment tax base.<br>■ Certain expenses are subject to additional business-purpose requirements. | ■ May be deducted from income-tax base.<br>■ May be excluded from self-employment tax base. |
| **ADMINISTRATIVE COSTS** | ■ Withholding involves more administrative costs for employers but less for employees. | ■ Estimated-tax system involves more administrative costs for independent contractors but less for clients.<br>■ Estimated-tax system allows modest delay in tax payments relative to withholding. |
| **COMPLIANCE** | | ■ Slightly more able to be noncompliant with tax and employment laws because of a lack of withholding, larger trade or business expenses, and somewhat more-limited business-purpose requirements for such expenses. |
| **OTHER DIFFERENCES** | ■ Less flexibility in choosing among fringe benefits; value of employer contributions to retirement plan may be lost if workers change jobs frequently.<br>■ Administrative and other costs associated with federal and state laws applicable to employees; for example, minimum wage. | ■ May be unable to obtain fringe benefits, including statutory fringe benefits such as unemployment insurance and workers' compensation.<br>■ Unable to negotiate eligibility for minimum wage, overtime, and other provisions of labor laws. |

SOURCE: U.S. TREASURY DEPARTMENT RECORD, "TAXATION OF TECHNICAL SERVICES PERSONNEL: SECTION 1706 OF THE TAX REFORM ACT OF 1986"

CHART: AMY PUGLISI

# $0,000,000.00

# This is how much AT&T customers pay for fraudulent corporate calling card calls.

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worker his or her wages as approved by the client company. The payroll company issues the W-2s and withholds all state and federal taxes and FICA taxes.

The third-party service is not required to pay anything other than workers' compensation, disability coverage, and unemployment insurance. The cost of the worker to the company is usually less than if the company were to put the person on the payroll as an employee.

Bill Cantor, president of Cantor Concern Interim Services Co., a third-party payroll service in New York, explains that his firm, like others in his business, enables individuals "to work for the company they were formerly working for, but as our employees. We serve as the employer of record. It allows the companies to be in full compliance with the IRS and state regulations."

If you consider using a third-party payroll service, check it thoroughly. Some firms have been accused of keeping funds they were supposed to remit to the federal government for client companies' payroll taxes.

Another possible way to avoid a tax collector's challenge to the legal status of independent contractors is to follow specific guidelines on the treatment of independent contractors and maintain proper documentation on these individuals. Legal experts recommend steps such as the following:

**Carry out a "self-audit,"** using both state and IRS tests, attorney Joerg recommends. Many states use a test requiring the company to prove that its working relationship with an independent contractor meets these descriptions:

- There is sufficient lack of control and direction over the worker;
- The worker's services are sufficiently different from the "course of business" of the company's services, or the worker does his or her work away from the company's "place of business";
- The worker has his or her own independently established trade, profession, or business.

**Have an independent-contractor agreement** drawn up by your attorney. It should be signed by both you and the independent contractor. The contract should include statements that the company is not supervising the actions of the contractor, that there is no right to fire the contractor, that there are no fixed or set hours, and that the contractor is responsible for furnishing and paying for labor, materials, tools, and other equipment.

**Establish an independent-contractor file** for each individual who performs work for you in this capacity. The file should contain the individual's business card, stationery, and advertisements that show that the individual runs his or her own separately established trade or business. It is also important to have this individual's federal employer tax identification number on file rather than just the person's Social Security number.

PHOTO: [illegible]

**A third-party** *payroll service such as his can help a firm comply with IRS rules, says Bill Cantor.*

Attorney Joerg recommends that the file also contain invoices from the independent contractor to your business, copies of the independent contractor's certificate of incorporation, file memos about other entities for which the independent contractor provides services, and photos of vehicles or equipment bearing the name of the independent contractor's business. Remember that in the event of an audit, the burden is on the company to prove that the workers in question paid income, Social Security, and Medicare taxes.

**Do not provide liability or health insurance** of any type to these individuals. The company should insist that the workers carry their own liability insurance.

**Make the independent contractor responsible** for obtaining and paying for any required licenses. Do not pay for any meal or transportation expenses incurred in the performance of the contracted work.

Keep in mind that this is a risky area of employment. "A company that uses independent contractors can never be completely certain that the IRS isn't going to challenge" the company's practices, says attorney Shulman. "Until Congress does something that really looks at the bigger problem, there always is going to be some jeopardy to firms that use contractors."

Legislation is expected to be introduced in the House that would reduce the misclassification penalty for firms that have met all information-filing requirements. It is also likely to propose amnesty for firms that have not filed information returns in the past or that have misclassified workers as independent contractors; the legislation would waive all back taxes for businesses that agree to reclassify their misclassified workers. On the other hand, the bill likely would raise the penalties for not reporting payments to independent contractors. But the outlook for passage of such a measure soon is uncertain.

In all circumstances, of course, small firms bear the responsibility—and the risk—for how they classify workers. But with the current uncertainties surrounding both existing law and prospects for revisions, small-business concerns on this issue are not likely to be eased soon. With pressures to use contingent workers likely to remain strong in view of the cloudy economic outlook, Nancy Joerg, the lawyer specializing in this area, says that "the problem over misclassification will only worsen." NB

## Help For Employers

The Internal Revenue Service offers companies the following resources for guidance on the proper classification of workers:

*Employment Taxes and Information Returns, IRS Publication 937.* This free publication details the employer's tax responsibilities. To obtain a copy, call the IRS's toll-free number for forms and publications: 1-800-829-3676.

*IRS Small Business Workshops.* The IRS conducts workshops for smaller start-up firms that need information on their tax responsibilities as employers. Contact your local IRS office for the dates and locations of workshops scheduled to be held in your area.

*To order reprints of this article, see Page 71.*

FINANCE

# A Potential Crunch In SBA Loans

*Rule-change proposals at the Small Business Administration could crimp borrowing by small firms.*

*By Jesse H. Sweet*

Five years ago, Douglas Myron patented an energy-saving electronic device to turn office lights on when people enter and off when they leave. But before his employer could launch the product, the company went bankrupt, leaving Myron with an idea and no capital.

Today, Myron's fortunes are reversed. He is the founder and president of MyTech, an Austin, Texas, firm that has become the largest domestic manufacturer of "occupancy sensor" devices. Over the past five years, MyTech has grown by a remarkable 850 percent, with annual sales now exceeding $1.5 million.

PHOTO: ROB DAEMMRICH

**SBA-guaranteed loans** *enabled inventor Douglas Myron to start his firm to make his "occupancy sensor" devices.*

Myron, whose company now has 25 employees and plans to hire 20 more over the next 12 months, made the transition from capital-starved inventor to successful business owner with the help of four separate bank loans backed by the Small Business Administration (SBA); they ranged from $60,000 to $235,000. While banks issue such loans, the SBA pays off most of the unpaid balance in the event of default.

"Without the SBA [loan guarantee], we would not be in business today," says Myron. The same could be said for many of the 22,460 small businesses granted a total of $5.6 billion in SBA-guaranteed loans last year.

But proposed changes in SBA's General Business Guaranty loan program—also known as the 7(a) program—would make it more difficult for small-business owners like Myron to obtain similar loans in the future, according to bankers who issue such loans.

Most controversial is the SBA's proposal to cut the average amount of a bad loan it would cover to 75 percent from 81 percent, in effect forcing banks to tighten their standards for approving loans. The SBA calculates that this proposal would translate into fewer loan defaults, saving the agency $102 million in fiscal 1994.

"Requiring lenders to assume a greater share of the risk will increase their scrutiny of potential borrowers, thereby reducing the default rate," said SBA Administrator Erskine Bowles during a recent Senate subcommittee hearing on the agency's budget.

John Shivers, president of the Independent Bankers Association of America, a Washington, D.C., group that represents small, community banks, told a House subcommittee that tougher standards would do more harm than good. "The practical effect of the change in the guarantee levels would be to drive [those] deserving credits out of the SBA system altogether," he said.

Shivers warned that tighter credit for small businesses would mean fewer new jobs because small firms are the primary source of job growth in the U.S. economy.

In addition to tougher credit standards, the SBA wants to charge a new fee to investors who purchase bundles of 7(a) loans from banks. The proposed 0.5 percent annual fee on the outstanding loan balance would generate a projected $67 million in 1994, money that would be plowed back into the 7(a) program.

Bowles acknowledged that the tougher loan standards and the new fee would make the 7(a) program slightly less attractive to bankers. But he insisted that 7(a) would not suffer a decline in its ability to meet small-business loan demand.

The 7(a) program is designed to make capital available to small firms whose loan applications have been denied by at least two banks. Bankers like the program because the SBA assumes most of the risk for loan defaults, which accounted for 2.5 percent of all loans in 1992.

The program has been so popular over the past two years that Congress has been forced to make supplemental appropriations to prevent it from running out of money.

In fiscal 1992, Congress initially appropriated $198 million for the 7(a) program. When the program ran out of money, Congress approved an additional $94 million.

In the current fiscal year, which began Oct. 1, the program's $197.9 million appropriation was depleted by late April. A supplemental appropriation of $175 million was approved by the Senate in early July, which will enable the program to guarantee $6.8 billion in loans this year.

For fiscal 1994, the SBA has asked for only $154.8 million, $43.1 million less than its initial fiscal 1993 appropriation, yet it estimates total loan volume of $6.6 billion. Reaching this goal would require $169 million in combined savings and new revenue from the pending program changes in addition to its funding request.

The proposed changes received lukewarm approval from lawmakers at recent congressional hearings, but no votes were taken. At a Senate Appropriations subcommittee hearing, Sen. Dale Bumpers, D-Ark., expressed concern that tougher loan standards would cause banks to make fewer loans to small firms that need the money, and in turn there would be a ripple effect in the economy. "When it comes to job creation," he said, "there's nothing like the 7(a) program."

But even opponents of the changes concede that the proposals will probably win approval when Congress acts on the federal budget for fiscal 1994.

Says Shivers, who believes the proposals will pass: "This is going to work a hardship against new start-up businesses. They're probably going to have the door shut on them."

For entrepreneurs like Douglas Myron, such an outcome could mean fewer good, job-generating ideas reaching fruition. NB

*Jesse H. Sweet is majoring in journalism and political science at Miami University, in Oxford, Ohio.*

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# States Advance Their Own Plans

*Anticipating White House proposals, states are moving briskly to implement their own health-care changes.*

*By Roger Thompson*

Health-care reform may be on hold in the nation's capital, but state lawmakers from Florida to Washington aren't waiting. They've pushed reform into high gear, aiming for fundamental changes in health-care delivery and financing.

That momentum contrasts with the federal government's performance on the issue. President Clinton's health-care plan, initially promised for early May, probably won't be announced until September; congressional action is not expected before next year; and implementation could take several more years.

The states not only are moving ahead briskly but also are adopting some of the expected federal proposals. For example, California, Florida, Iowa, Minnesota, Vermont, and Washington have authorized the creation of purchasing pools, a key feature of the Clinton plan. The pools will give small companies greater leverage in negotiating for lower premiums. Seven more states at least considered similar legislation this year. (See the map.)

Laws providing for spending restraints that include limits on doctors' fees and overall expenditure caps have won approval in Maryland, Minnesota, Montana, Vermont, and Washington.

Even states that aren't ready for major changes have begun to lay the groundwork for the inevitable. More than half have enacted laws designed to make insurance more accessible to small companies. And 22 states have established commissions or task forces to develop health-reform plans.

This flurry of state activity should come as no surprise, says Richard E. Merritt, director of the Intergovernmental Health Policy Project at George Washington University, in Washington, D.C. "States don't have the luxury to sit back and wait for Washington to act," he says.

Runaway costs, particularly in providing care to the poor through Medicaid, and growing numbers of uninsured have produced a crisis atmosphere in many states, says Merritt. Medicaid, a federal-state program, now consumes 17 percent of an average state's budget. Combined federal and state Medicaid outlays have doubled since 1989, and they now total nearly $140 billion a year, with states paying roughly $60 billion.

Nationwide, health care now accounts for 14 percent of all spending in the economy; the projected total this year is $912 billion. Current trends will push spending to 19 percent of the economy by the end of the decade, according to the Congressional Budget Office. And yet, 36 million people remain uninsured, and their ranks are growing.

**States Moving To Small-Business Purchasing Pools**


SOURCE: BLUE CROSS AND BLUE SHIELD ASSOCIATION

Because so many of the uninsured work for small companies, states typically make small firms the first beneficiaries of reform legislation. Nearly one-half of all uninsured workers—9.8 million Americans—are self-employed or work for firms with fewer than 25 employees. Only one-fourth of all firms with fewer than 10 employees provide group health coverage, according to the Employee Benefit Research Institute, in Washington, D.C.

For their part, small employers complain about insurance companies that refuse to issue policies when employees have health problems, that raise premiums substantially when an employee incurs high costs from a serious illness, or that cancel policies when they are needed the most.

Determined to help, states began in 1990 to enact laws to address these problems, and the legislative trickle soon became a torrent. A Blue Cross and Blue Shield Association survey showed that as of mid-May, 26 states had passed laws requiring insurers to issue policies to anyone who applies, regardless of their health; 35 states had passed laws guaranteeing policy renewal; and 37 had imposed limits on the variation and permissible increases in insurance rates. (See the chart on Page 30.)

"From a state lawmaker's standpoint, small-group market reform is the easy part to do," says Merritt. It's a good place to start, he adds, and it doesn't require raising taxes.

Unfortunately, small-group market reforms don't solve the tough problems of affordability and universal access, says Anne Gauthier, associate director of the Alpha Center, a Washington, D.C., nonprofit organization that administers a variety of experimental state health-reform projects.

"If states have done just small-group reforms, I would not put them very far along on the continuum in restructuring the insurance market," says Gauthier. "These incremental reforms don't do much for affordability."

Like President Clinton, a number of governors elected last fall ran on platforms pledging to move beyond incremental changes to address their states' broader health-care cost and access problems.

Although its plan has been delayed, the administration has encouraged states to proceed with their own reforms. Ira Magaziner, a senior White House policy adviser, has repeatedly stressed that the president's plan will give maximum flexibility to the states in implementing reform.

Despite this encouragement and their progress to date without waiting for Washington, state officials say there are limits on how far they can go. For political reasons, many key decisions are best made at the federal level, says Gauthier. Among them: What constitutes a standard benefits package? How will univer-

sal coverage be financed? And who will be required to participate?

In fact, the states are looking to Washington to set a framework for national reform. The National Governors' Association has called on Congress to establish a number of minimum standards. They include:

- Universal access to health care guaranteed to every American.
- State-organized purchasing cooperatives.
- A standard benefits package.
- Federal regulation of the insurance market, including guaranteed access, guaranteed renewal, portability, and rate restraints.
- Limitations on the tax deductibility of company-paid health-insurance premiums.
- Voluntary expenditure targets.

Within this framework, however, the governors' association strongly advocates—and the administration apparently supports—state and local management. For example, the governors want the option of choosing between public and private operation of state-regulated purchasing pools. They also want the states to be in charge of implementing cost-containment strategies.

"Whatever is finally enacted, there will be a federal-state partnership giving states a large measure of authority and a significant degree of flexibility in implementing federal guidelines," says Susan Laudicina, state research director for the Blue Cross and Blue Shield Association office in Washington, D.C.

Moreover, Laudicina speculates that between five and 10 states may seek federal waivers to set up health-delivery systems that do not conform with a national plan based on competition among private providers. Vermont and Montana, for example, are studying the feasibility of establishing a Canadian-style system in which the state would collect taxes to pay doctors and hospitals. "If they go for a single-payer system, I think the administration would give serious consideration to granting a waiver to let them do it," says Laudicina.

To hasten change while waiting for national reform, which may take years to implement, a number of states are already seeking federal approval to proceed with a variety of ideas.

Four states—Hawaii, Maryland, Minnesota, and New York—have asked Congress for exemptions from the Employee Retirement Income Security Act of 1974 (ERISA). The law bars states from regulating self-insured health plans, the type preferred by most large companies and which now cover more than half of all workers. Many governors complain that ERISA hampers their ability to implement sweeping reforms because most large employers are exempt. The four states seeking ERISA waivers want to apply the same taxes, insurance-premium limits, or standard benefit guidelines to all companies, regardless of whether they self-insure.

Other states are seeking approval from the Health Care Financing Administration, which oversees Medicaid, to over-

## Small-Group Market Reforms

Numbers denote the year or years in which the state enacted insurance reforms of the type signified by the column heading.*

| | Guaranteed Issue | Guaranteed Renewal | Rate Bands/ Community Rating |
|---|---|---|---|
| Alabama | | | |
| Alaska | | | |
| Arizona | 93 | 93 | 93 |
| Arkansas | | 91 | 91 |
| California | 92 | 92 | 92 |
| Colorado | 91 | 91 | |
| Connecticut | 90 | 90 | 90 |
| Delaware | 92 | 91 | 91/92 |
| Florida | 92/93 | 91/92 | 91/92/93 |
| Georgia | | | |
| Hawaii | | | |
| Idaho | 93 | 93 | 93 |
| Illinois | | | |
| Indiana | | 92 | 92 |
| Iowa | 92 | 91 | 91 |
| Kansas | 92 | 92 | 91/92 |
| Kentucky | | | |
| Louisiana | 91 | 91 | |
| Maine | 92 | 92 | 92 |
| Maryland | 93 | 93 | 93 |
| Massachusetts | 91 | 91 | 91 |
| Michigan | | | |
| Minnesota | 92 | 92 | 92 |
| Mississippi | | | |
| Missouri | 92 | 92 | 92 |
| Montana | 93 | 93 | 93 |
| Nebraska | 91 | 91 | |
| Nevada | | | |
| New Hampshire | | 92 | 92 |
| New Jersey | 92 | 92 | |
| New Mexico | | 91 | 91 |
| New York | 92 | 92 | 92 |
| North Carolina | 91 | 91 | 91 |
| North Dakota | 93 | 91/93 | 91/93 |
| Ohio | | | 93 |
| Oklahoma | 92 | 92 | |
| Oregon | 91 | 91 | 91 |
| Pennsylvania | | | |
| Rhode Island | 92 | 92 | 92 |
| South Carolina | 91 | 91 | |
| South Dakota | 91 | 91 | |
| Tennessee | 92 | 92 | 92 |
| Texas | | | |
| Utah | | | |
| Vermont | 91 | | 91 |
| Virginia | 93 | 92 | 93 |
| Washington | 93 | | 93 |
| West Virginia | 91 | 91 | |
| Wisconsin | 92 | 91 | 91 |
| Wyoming | 92 | 92 | 92 |

***Guaranteed Issue:** Requires insurers to offer health plans to small companies regardless of their employees' health status or claims experience.

**Guaranteed Renewal:** Requires insurers to renew coverage.

**Rate Bands/Community Rating:** Bands limit the range of premium. Community rates reflect average costs for a large pool of people.

SOURCE: BLUE CROSS AND BLUE SHIELD ASSOCIATION

haul their approach to delivering care to the poor. Oregon won the first such exemption in March, giving the state authority to limit medical services paid by Medicaid. Hawaii, Kentucky, and Tennessee are awaiting decisions on their Medicaid waiver requests.

All the states that are furthest along in addressing their access and cost problems may eventually need federal waivers to implement their programs fully. Here are state-by-state summaries of the most ambitious plans:


Laws enacted in 1992 and this past May commit Florida to expanding access and containing costs through a managed-competition model, which will force medical providers to compete on the basis of quality and cost.

The 1993 law creates 11 health-purchasing alliances, or purchasing pools, that will provide coverage to small employers, state employees, and Medicaid recipients.

Participation in the pools is voluntary; small employers may continue to purchase insurance from private insurers. All insurers who comply with market-reform rules—including guaranteed issue and renewability—may sell policies through the purchasing pools.


In April, the Maryland Legislature passed a bill containing broad insurance-market reforms and cost containment through regulation of physicians' fees.

By July 1, 1994, all insurers must offer a standard benefit plan to companies of two to 50 workers. The law phases in the setting of insurance rates based on community averages, and it phases out the practice of denying coverage based on a person's health.

In addition, the law establishes a commission that must develop and implement by Jan. 1, 1995, a payment system for all doctors and other medical providers.


A 1992 law set Minnesota on the path to sweeping reforms. Among other things, the law expanded medical-care access to more of the state's poor, established cost-containment guidelines, and authorized creation of purchasing pools for small companies.

The Minnesota Care Act, approved in May, goes further. It sets limits on the annual growth in health-care expenditures, authorizes the creation of a new type of delivery system that combines doctors and hospitals in so-called integrated service networks, and mandates a fee schedule for all services provided outside the new service networks. The integrated service networks will compete for clients on the basis of quality and price.


The Montana Legislature in May passed a law that establishes a Health Care Authority responsible for submitting a universal health-access program by Oct. 1, 1994. One of the submitted plans must be based on a Canadian-style government-run system, and the other must rely on competition among private health-care providers. The legislature will choose between the two plans in 1995.


Oregon has been working toward a universal-access program since major reform legislation passed in 1989. A key component is the play-or-pay mandate that takes effect July 1, 1995. It requires employers to buy health insurance for their workers or pay into a public fund to finance employee coverage.

In addition, Oregon plans to begin offering a basic benefits package to all residents who fall below the federal poverty level, beginning Jan. 1, 1994. First, the state must raise $100 million to finance this Medicaid expansion.


A 1992 reform bill in Vermont established a commission to devise two models for universal coverage: a Canadian-style, government-run model, and one that would involve competing private provider networks. Both models must include expenditure targets and incentives for the development of organized care-delivery networks.

The commission is scheduled to deliver its recommendation to the legislature in a special session in November, and at that time one of the proposals is expected to win approval.


The Washington Health Services Act of 1993, adopting a managed-competition model for reform, establishes four health-care purchasing cooperatives. They must offer any health plan that meets state certification requirements and must sell qualifying health plans to any individual or employer who applies.

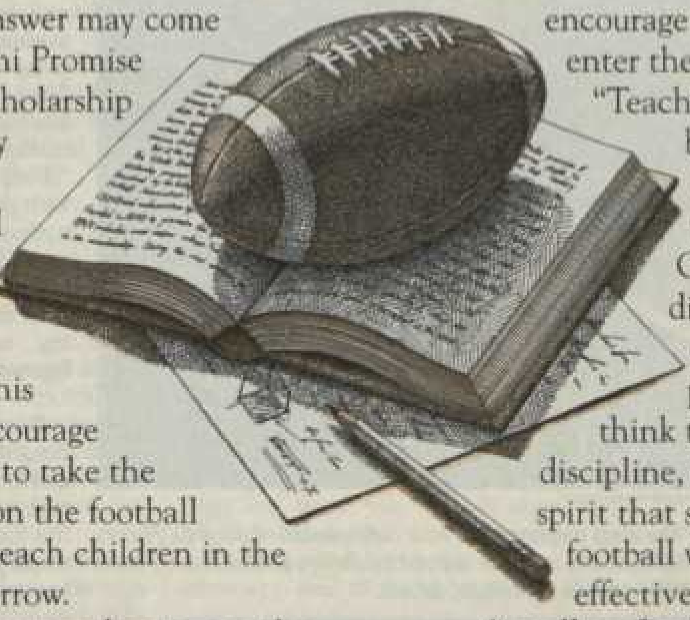
The act also requires employers to pay at least 50 percent of the cost of a state-determined standard benefit package for employees and their dependents. Companies with fewer than 100 workers don't have to comply until July 1997.

Clearly, lawmakers in several states are shaping reforms in anticipation of President Clinton's own plan, says Merritt of the Intergovernmental Health Policy Project. "They figure that if the national plan isn't to their liking, they can try to opt out. If it is to their liking, they are that much ahead. And if nothing happens at the federal level, they aren't any worse off by doing their own thing." NB

# Turning Student Athletes Into Teachers

In the coming years, America's public school system must prepare to educate a new wave of students – the children of the baby boom generation. The U.S. Department of Education projects that from now until 2001, the demand for hiring public school teachers will increase by 18 percent. The question now arises: Who will teach the baby boomers' children?

Part of the answer may come from the "Hitachi Promise of Tomorrow" scholarship program recently launched by the College Football Association (CFA) and underwritten by Hitachi Ltd.. This program will encourage student athletes to take the lessons learned on the football field today and teach children in the classrooms tomorrow.



During the next academic year, the "Hitachi Promise of Tomorrow" program will award $335,000 in scholarships at the 67 CFA member universities. Eligible students include outstanding senior or graduate students who have participated in the college football program as a player, trainer, or manager. Each recipient will use his or her $5,000 grant to continue postgraduate studies in education or to meet certification requirements for pursuing a teaching career.

The CFA hopes that the "Hitachi Promise of Tomorrow" program will encourage more young people to enter the teaching profession.

"Teaching plays an important but undervalued role in society today," explains Charles M. Neinas, the CFA's executive director. "We'd like to encourage students to pursue this field, and think that the leadership, discipline, hard work and team spirit that students gain in college football will help make them effective classroom teachers."

As college football fans and parents of school-age children, we at Hitachi are proud to be part of the scholarship program. We believe that it will go a long way toward instilling pride in education and the profession of teaching.

**HITACHI**

# Golden Employees—In Their Golden Years

*Small businesses are discovering that older workers are often "aged to perfection."*

*By Sharon Nelton*

The employees at Kuempel Chime Clock Works and Studio in Excelsior, Minn., are any business owner's dream. They get to work early. They're self-starters. They rarely get sick. They are meticulous about quality. They are honest. And they work hard.

The secret? They are older workers. Old, in fact. According to Bruce J. Hedblom, principal owner of the company, most of Kuempel's 20 employees are ages 62 to 84.

Throughout its 77-year history, says Hedblom, an owner since 1990, Kuempel has "targeted the older worker as the ideal employee." The company prepares kits for grandfather clocks and smaller clocks that customers assemble and finish themselves.

In an era when other companies are downsizing by pushing older employees out the door or luring them out with attractive retirement packages, Kuempel and a handful of other smaller companies are steadfast about maintaining a work force of seniors.

"Their work ethics are unbelievable. They're from the old school, the school of hard knocks. They're just great people," says Millie Newman, an owner of The Place, a discount clothing chain based in North Miami.

The Place has hired older workers since its founding 28 years ago because they can relate to the company's target customers, who are age 40 and over. Now the company has four stores in south Florida, and 63 of its 74 employees are 60 or over. Newman is 73.

"It is the policy of The Place to hire, not fire, the senior citizen," says Richard Walfish, Newman's son and partner.

Business owners like Hedblom, Newman, and Walfish emphasize that their employees disprove the myths about older workers. Such misperceptions arise on various subjects. Among them:

**Absenteeism.** "For the most part, our employees are in good health, and we certainly don't have any absentee problems that would be out of line with the normal population," says Hedblom.

The U.S. Department of Health and Human Services says older workers who stay in the labor force may represent a self-selected healthier group of older people.

"They take good care of themselves. We don't see many bleary eyes around here," laughs John H. Swon, one of Hedblom's partners.

**Learning.** Business owners and managers find seniors no more resistant to learning than younger workers. "They're scared of computer equipment," says April Tripp, a department manager at Enrich International, a multilevel marketing firm in Orem, Utah. "[But] that's very easily overcome with practice."

Kuempel's employees include a retired school principal, a former banker, and others who were hired with no experience in woodworking or clock repair. They've learned those skills on the job.

**Benefits.** While the costs of benefits such as health, disability, and life insurance often do increase with an employee's age, such benefits may not be a factor when an employee reaches 65. According to research conducted for the U.S.

PHOTO: SMITCH KEZAR

**"The ideal employee"** *is how older workers such as Harry Carlson, 83, left, are viewed by Bruce J. Hedblom's clock company, in Excelsior, Minn.*

## Older Workers, Younger Bosses

To April Tripp, an older worker is anyone 40 or over. But then, she's only 25.

As a manager at Enrich International, a marketer of herbal and beauty products, in Orem, Utah, Tripp supervises 30 people; usually four or five are in the "older" category. "It can be a little difficult when I am the same age as [an employee's] youngest child," she says.

Any young supervisor could be mindful of these observations about older workers:

■ Don't be afraid to hire them. "As long as you treat them fairly with the other employees and don't show them any more or any less deference than you show anyone else, it can be a real productive experience," Tripp says.

■ Regard older workers as a valuable resource. They offer experience and special qualities, says Joan Kelly of the American Association of Retired Persons.

■ Don't be intimidated. Some older workers think their age qualifies them for higher pay, Tripp has found, but she's firm about not favoring any age group with higher pay.

■ Deal with resentment tactfully. Sometimes an older worker resents a younger boss. A tactic that has worked for Tripp is to put the employee in charge of a special project, which often makes the worker too busy to be resentful. —*Sharon Nelton*

Small Business Administration, most older workers are retirees with health or pension plans.

Most of the workers at Kuempel and The Place are already on Medicare and Social Security. The Place provides no health insurance, while Kuempel provides health insurance for employees under 65 who work 30 or more hours a week. For employees over 65, Kuempel offers either a package to supplement Medicare or a stipulated amount of money per month to be applied to a Medicare supplement.

According to a joint survey by the American Association of Retired Persons (AARP) and the Society for Human Resource Management (SHRM), older workers are becoming a more important source of labor as the work force ages and as the shortage of skilled workers increases. However, the survey, which polled 5,000 SHRM members, indicates that older workers are "underutilized and undervalued."

One thing seniors bring to the workplace, says John Swon, is "a sense of calm. They don't get frantic very easily. They pace themselves to the point where they know just exactly what it takes to accomplish the task on the schedule that's been set. As a consequence of that, they don't make as many mistakes."

Recruiting and managing seniors may require some nontraditional approaches. Older people may already be convinced that employers don't want to hire them, says Joan Kelly, head of AARP's business partnerships program, so companies should recruit aggressively, emphasizing their need for experienced workers. She suggests recruiting through churches and senior-citizen clubs, holding a job fair for older workers, or offering "bounties" to employees who bring in prospective employees over a certain age.

Hedblom and Swon suggest that companies recruit older workers through senior newspapers, automobile-club publications, and nonprofit organizations that attract older volunteers.

Good management practices that succeed with other employees work with seniors, too. But older workers tend to require more flexibility on the part of their employers. For instance, they often prefer part-time work to keep their income below the level where they start losing Social Security benefits. (Workers under age 65 lose $1 for every $2 in earnings above $7,680; workers age 65 through 69 lose $1 in Social Security benefits for every $3 they earn above $10,560 annually. From age 70, a Social Security recipient can collect full benefits regardless of the amount of earned income.)

There's another factor: As Hedblom says, older workers are a "very active group." They want time for traveling and activities such as fishing, golf, and cards. Kuempel and The Place both offer part-time work and flexible schedules to accommodate their employees' desires.

Job sharing is another option, one that is offered at LinguiSystems, a publisher of special-education materials in East Moline, Ill., according to the company's manager of human resources, Kathy Herbst.

trains its employees in the use of its point-of-sale computers, and Richard Walfish says the seniors can operate them "just as well as anybody else, even better."

Business owners who develop an older work force can take advantage of the added marketing and public-relations value that such a work force offers. Kuempel has used photographs of its employees in catalogs to convey quality, craftsmanship, and stability.

The Place and its older workers gained coverage from *The Miami Herald* and a local television station earlier this year. The headline on the *Herald* story spotlighted the contribution that such workers can make to a firm's image. "At The Place," it said, "service is aged to perfection." NB

PHOTO: [illegible] KELLY—BLACK STAR

**Don't overmanage** *older employees, "just tell them what you need done," says marketing-firm supervisor April Tripp, with Diane Getty, right.*

It's best not to overmanage older employees, suggests April Tripp. They need less "hand holding, watching, and guiding" than younger workers, she says. "They don't need to be told how to do [a task]. You just tell them what you need done and when you need it done, and they're off doing it."

Adequate training helps seniors overcome any fear of technology. The Place

## For More Information

A number of useful resources on older workers are available to employers. Write to Joan Kelly, Business Partnerships, American Association of Retired Persons, 601 E Street, N.W., Washington, D.C. 20049, regarding the following free publications and services. Publications are available in single copies only.

■ *How To Recruit Older Workers, How To Manage Older Workers,* and *How To Train Older Workers.* Include titles when ordering these 16-page booklets.

■ *Working Age,* a bimonthly newsletter on employment issues that affect middle-age and older people.

■ "The Older Workforce: Recruitment and Retention," a report on a survey conducted jointly by AARP and the Society for Human Resource Management.

■ The National Older Workers Information System (NOWIS), a database on company programs utilizing older workers. Topics include hiring, job redesign, benefits, and training.

Another useful publication, available from the Social Security Administration, is *How Work Affects Your Social Security Benefits.* Contact your local Social Security office or call 1-800-772-1213. Ask for SSA Publication No. 05-10069.

# Women In Business

*Campus-centered study of women and business; a search for corporate partners; roadblocks to capital.*

*By Sharon Nelton*

ENTREPRENEURSHIP

## Center Focuses On Women

PHOTO: SCOTT GOLDSMITH

**Teaching women** *about business is a goal of Seton Hill College's new education center, says its director, Cynthia Iannarelli.*

An ambitious program to stimulate research on women's entrepreneurship and create innovative ways of teaching girls and women about business ownership has been launched at Seton Hill College, a small, Catholic, women's school in Greensburg, Pa.

Called the National Education Center for Women in Business (NECWB), it was officially kicked off in May with two daylong conferences that attracted about 40 entrepreneurs, educators, and researchers from around the country.

To be supported with $5 million in federal funds over a five-year period, NECWB was conceived by Pittsburgh business owner Linda Dickerson and Seton Hill's president, JoAnne Boyle, along with other members of the college faculty.

But the engine of the new center is its director, Cynthia Iannarelli, who has a Ph.D. in business and is still involved in her family's dry-cleaning chain in Pittsburgh.

"This center is mostly about educating men," she says, in an apparent contradiction. She means men who run banks that resist lending money to women business owners; male accountants, insurance agents, attorneys, and other professionals who do not yet take women business owners seriously; and men in the male-dominated business schools of the country where a male model of entrepreneurship is taught. "Women don't gravitate to it," she says. "They say, 'That's not us.'" She hopes that a "female model" of women's business ownership can be developed at the center.

NECWB expects to fund $200,000 worth of research annually.

During its first year, the center plans to focus on research on women expanding their businesses. Research funded by the center, Iannarelli said, must be of practical use to women business owners and be readily convertible to such tools as videos, audio tapes, workbooks, and seminars.

The center offers a number of education programs for adults, including seminars on taking a business international and entrepreneurship for disabled women. A seminar on marketing to women business owners is designed for bankers, insurance agents, financial consultants, and other professionals who serve entrepreneurs.

However, much of NECWB's thrust is directed at the younger generation. It expects to help Seton Hill integrate business education into all of the disciplines taught at the college. It recently sponsored a business-plan competition for teenage girls in Pennsylvania and hopes to take the program national. In June, it sponsored its first "Camp Entrepreneur," a program for girls ages 13 to 17.

Says Iannarelli: "We want to get to the point where young women in high school think manufacturing is fun." ■

### For More Information

The National Education Center for Women in Business (NECWB) publishes a bimonthly newsletter that provides information helpful to women entrepreneurs. In addition, NECWB offers a 30-minute videotape, "The Power of Family Business," which emphasizes women in family-owned companies and engenders lively discussion in a group setting. The tape is $129.

For further information, contact NECWB at Seton Hill College, Seton Hill Drive, Greensburg, Pa. 15601-1599; (412) 830-4625.

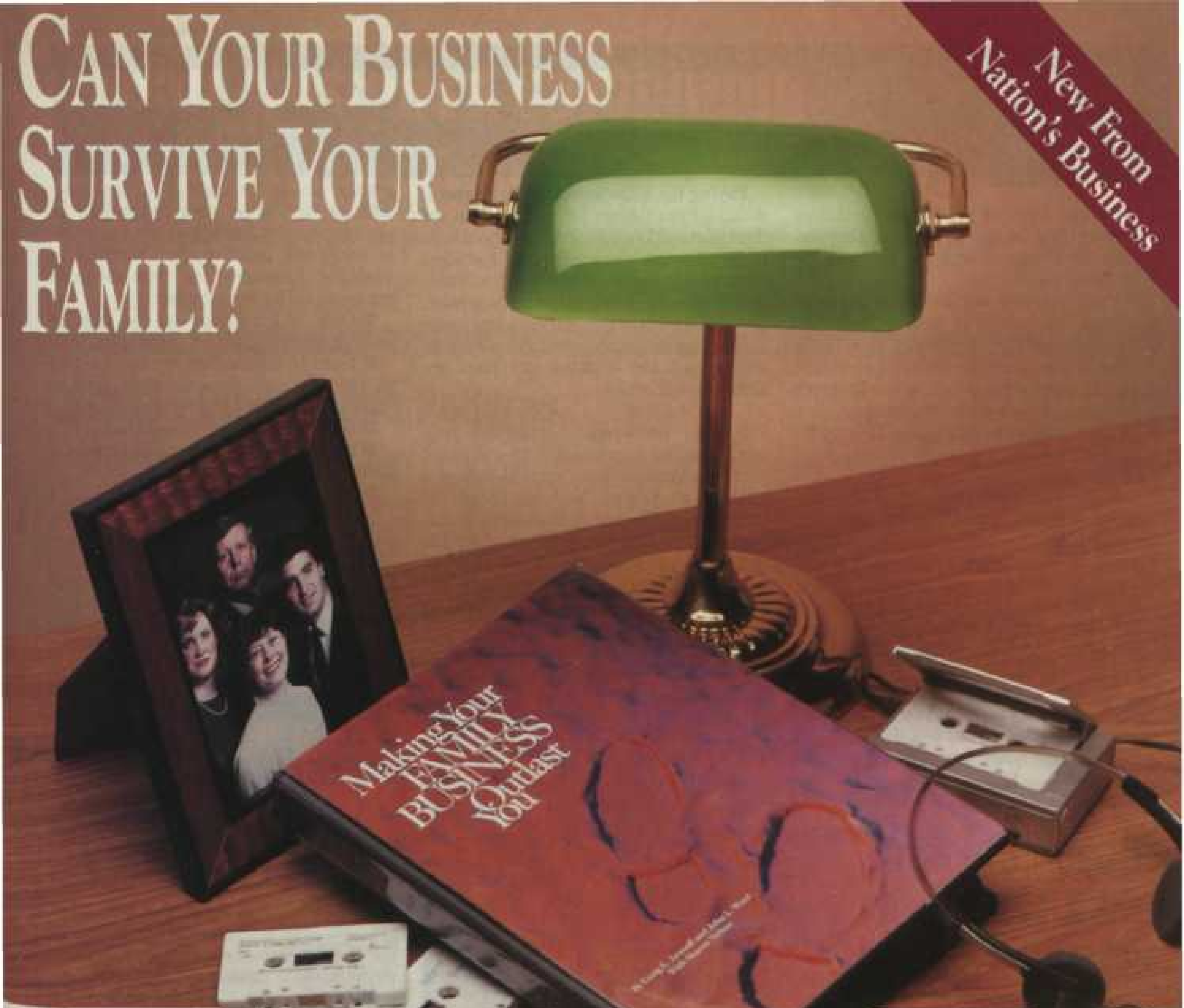
## Additional Help For Teenagers

Joline Godfrey wrote *Our Wildest Dreams*, a book about women entrepreneurs published last year. Now she's turning her attention to teenage girls as co-founder of a nonprofit organization, An Income of Her Own. AIOHO's purpose, she says, is to introduce girls to the idea that "business ownership is another option."

AIOHO offers "awareness-building" conferences that bring girls together with women business owners, plus a national business competition and a membership program that includes a bimonthly newsletter. Next June, AIOHO will hold a summer entrepreneurship camp.

If they wish, girls who attend a conference may follow it up with a two-week "observing internship" at a woman-owned business.

For dates and locations of future conferences and other information, contact AIOHO at P.O. Box 8452, San Jose, Calif. 95155; 1-800-350-2978. ■



CAN YOUR BUSINESS SURVIVE YOUR FAMILY?
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CAPITAL

# Some Mistakes To Avoid

What are some of the biggest problems lenders find in the documents they receive from women who are applying for business loans?

That question was asked at a recent seminar on sources of capital. The event was sponsored by the Washington, D.C., office of the American Woman's Economic Development Corporation, a not-for-profit training and counseling organization.

The seminar panelists cited these difficulties:

**Being too optimistic.** "Bankers tend to be skeptical," said Marilyn Ayres of Capital Bank, in Washington. "When you're looking at a business plan and someone projects astronomical growth over five years, you tend to think they're not someone that you really want to put a lot of faith in." Be realistic, she advised.

**Failure to toot your own horn.** Women are especially reluctant to do this, said Constance Proctor, a Reston, Va., management consultant. But she pointed out that investors and lenders want to know that you have a management team that can carry out your business idea.

**Paying too little attention to financial details.** Even though your projections are "best guesses," said Proctor, investors want to be sure that you understand cash-flow management and are familiar with industry standards—for example, for average sales. They need to know that you have done some homework on your industry, she said, adding that the statistics you need are available at libraries.

**Hidden problems.** Emphasize your strengths, but be straightforward about your weaknesses too, advised Christal Millner of Adams National Bank, in Washington. If your cash account is low, for example, explain why. If you filed for bankruptcy 10 years ago, say so. Lenders can help you work through problems, she said.

**Omitting a marketing plan.** You have to explain to an investor or lender how you are going to sell your product or service and to whom you're going to sell it, said Proctor. Otherwise, she said, even "your mother shouldn't give you any money."

## What Keeps Money From Women

While most entrepreneurs have difficulty obtaining money for their businesses, getting access to capital is especially difficult for women. At a symposium on access to capital, participants were asked to name the most serious barriers to adequate financing for women-owned businesses. The list included:

- Lack of knowledge on the part of lenders about women business owners.
- Lack of information on the part of women business owners about how to search for capital.
- Discrimination against women.
- Lack of tax incentives to invest in small business.
- The general credit crunch.

The symposium was sponsored by the National Women's Business Council (NWBC) and the Office of Women's Business Ownership of the U.S. Small Business Administration. For more information, contact NWBC at 409 Third St., S.W., Suite 7425, Washington, D.C. 20024; (202) 205-3850.

BUSINESS DEVELOPMENT

# Reach Out And Be A Partner

The National Association of Women Business Owners is hoping that the American Telephone & Telegraph Co. will be just the first in a long line of corporate NAWBO "partners."

NAWBO and AT&T recently announced a new arrangement under which AT&T is offering discounts on long-distance services and communications equipment to NAWBO members.

One member who is particularly pleased about the new arrangement is Jill Johnson of Minneapolis. As president of Johnson Consulting Services, a marketing and management consulting company, Johnson says, she spends "thousands of dollars" a year on telephone services. Under the discount program, she says, each year "I'm going to be saving approximately two months' worth of what I would normally spend on long-distance calls."

At a press conference announcing the discount program, NAWBO's president, Grace McGartland, said NAWBO is looking for other organizations committed to supporting women business owners. She and other NAWBO officials say the discount program strengthens its ties with AT&T, which last year helped underwrite research on women business owners under the auspices of NAWBO's affiliate, the National Foundation for Women Business Owners. An AT&T vice president is a member of the foundation's board. McGartland says the company "has taken the longer view."

It's not unusual for corporations to sponsor specific programs or events—Avon Products, Inc., for example, conducts an annual awards program for women entrepreneurs—but ongoing, long-range corporate support of women's business development is still rare. *Nation's Business* is looking for examples of such support. Readers who know of examples are invited to send information about them to Women In Business, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000.

PHOTO: STEVE WOIT

**Management consultant** *Jill Johnson sees her long-distance charges dropping.*

EVENTS

# Mark Your Calendar

The sixth annual Institute on Women and Economic Development, Sept. 9-12 in Peachtree City, Ga., will bring together grass-roots women leaders of nonprofit organizations from across the country to promote the economic development of low-income women. Topics include self-employment fundamentals, strategic planning for women's economic-development organizations, and creating a microenterprise loan fund. For information, contact the Ms. Foundation for Women, at (212) 353-8580.

"Changing the Face of Business" is the theme of the seventh annual Entrepreneurial Woman's Conference sponsored by the Women's Business Development Center, on Oct. 1 in Chicago. It includes a Women's Business and Buyers' Mart, where business owners can meet purchasing representatives from government and corporations. For information, call (312) 853-3477.

Over the next several months, "Women Going International" training conferences, sponsored by the U.S. Small Business Administration, will be held in New Mexico, California, Wisconsin, New Jersey, North Carolina, Ohio, New Hampshire, Colorado, and Florida. The conferences are aimed at increasing women business owners' skills and knowledge of exporting. For specific dates and locations, call your nearest SBA office. NB

# Small-Business Computing

*Small firms' computer usage; the latest on display at Comdex; plus printers, paper, and desktop publishing.*

*By Albert G. Holzinger and Ripley Hotch*

SURVEY RESULTS

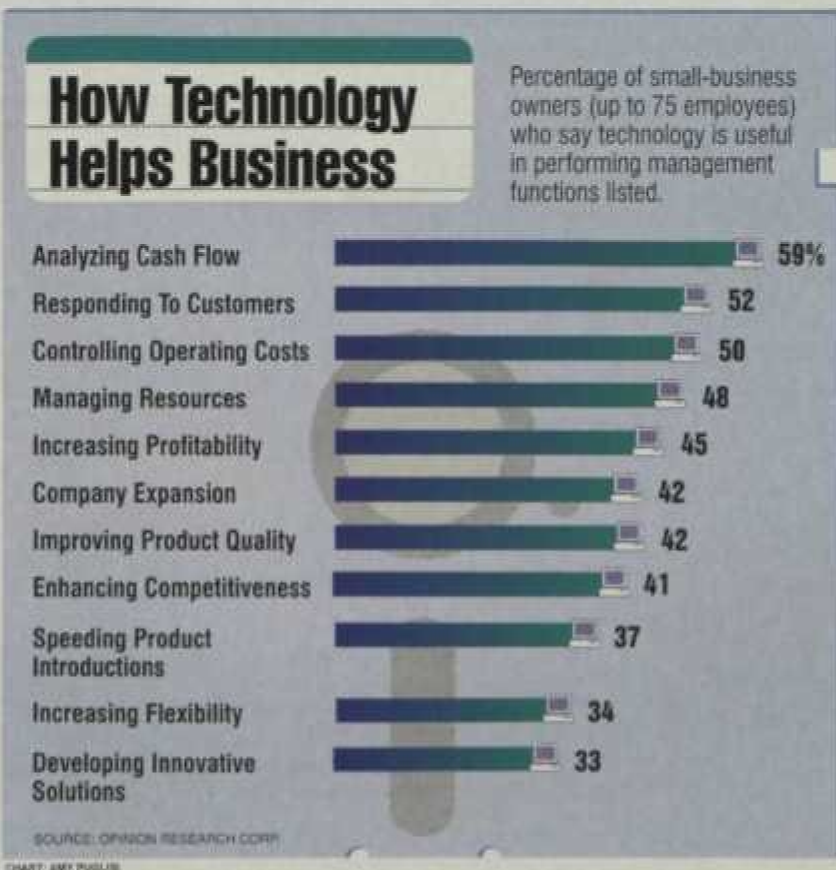
## Small Firms' Usage Patterns

Top managers of small businesses typically use computer hardware and software to perform basic but critical tasks such as analyzing cash flow, and they are generally pleased with the way their technology is performing. They are so pleased, in fact, that most would step up to an even higher level of technology for their firms—if they knew how.

These were among the findings of a nationwide survey of 500 statistically representative small-business owners and presidents conducted recently by Opinion Research Corp. (ORC), based in Princeton, N.J.

About two-thirds of those interviewed in ORC's telephone survey had 75 or fewer employees, 19 percent had 76 to 150 employees, and the remainder employed 150 or more.

Participating employers in the category with the fewest employees have been in business an average of nearly 21 years, and their 1992 gross sales volume was about $8.2 million. This demographic profile is similar to that of *Nation's Business* readers, so it should be interesting to compare your use and evaluation of technology with the experiences of the survey participants.




Employers of 75 or fewer workers have owned and used computer hardware and software a little over six years on average. As might be expected, 89 percent own desktop or notebook PCs. However, a surprisingly high 54 percent of the firms have minicomputer-driven workstations, 23 percent have midrange computers, and 21 percent have a mainframe computer. Clearly, there is no direct correlation between a company's size and its computer power.

Although most small businesses can operate efficiently with stand-alone PCs or a network of them, "many others find it to their advantage to move up one or more levels of computer power, either to accommodate rapid growth or because they have an application need that cannot be met by [off-the-shelf] PC software," says Wirt Cook, general manager of general business distribution for International Business Machines Corp., which makes computers of all sizes and which underwrote ORC's research. Thousands of programs used in business for purposes such as tracking large inventories, engineering and modeling products, and controlling industrial processes require more power than even today's PCs can provide and cannot run on standard PC operating systems such as DOS, Microsoft Windows, or IBM's own OS/2, Cook explains.

Fifty-nine percent of the small employers surveyed gave high marks to computers as tools for analyzing cash flow and conducting financial analyses.

Other leading uses cited were responding to customers (52 percent); controlling operating costs (50 percent); managing resources (48 percent); increasing profitability (45 percent); aiding in company expansion (42 percent); improving product quality (42 percent); and enhancing competitiveness (41 percent).

In fact, these business people gave their computers high performance scores overall: 19 percent said their computers perform extremely well; 49 percent said very well; 31 percent, fairly well; and only 1 percent said their technology does not perform very well at all.

Forty percent commented that technology had become critical to achieving satisfactory performance, and 54 percent said technology was important for achieving good business results.

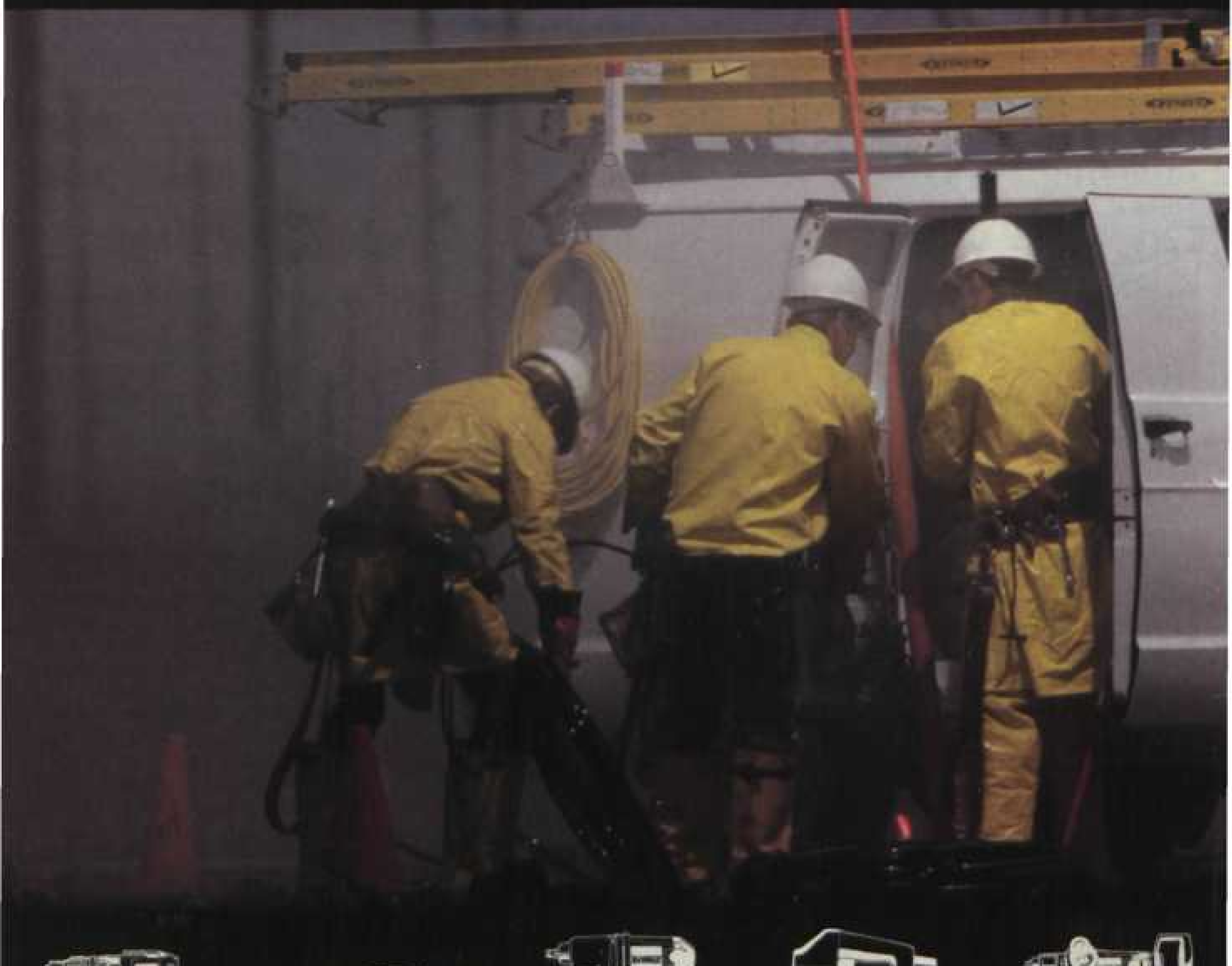
When asked to quantify the benefits of technology, 36 percent said computers saved their firm as much as 10 percent, while 38 percent pegged savings at 10 to 25 percent, 13 percent estimated savings at 26 to 50 percent, and 4 percent approximated savings of more than 50 percent. The remaining 8 percent could not estimate the magnitude of savings from technology.

When ORC inquired why, in view of the perceived benefits of technology, the small-business people did not buy even more, 27 percent cited cost, and 19 percent responded that they did not possess adequate knowledge to make

# There's nothing like having the right set of tools and a Magnum powered tool box to put them in.

So your old reciprocating saw can't cut it anymore. And your current truck isn't up to the job either. Help is on the way.

Because now when you buy a selected new Dodge Dakota, '93 Ram Pickup or any new Ram Van,

SURVEY RESULTS

additional useful purchases. The remainder were divided almost evenly among a number of responses or said they had no reason for not buying more.

In a related question, ORC asked what technologies would help the small-company owners better control and expand their enterprises. Eight percent said a network would help them, and several other technologies were named by a few respondents, but 35 percent said they did not know.

When asked the ways in which they have bought computer hardware (multiple responses were permitted), 41 percent of these small-business people said they relied on consultants for such purchases, 29 percent bought on the basis of software vendors' recommendations, 24 percent bought directly from representatives of manufacturers, 13 percent bought from value-added marketers, 9 percent made catalog purchases, 4 percent bought over the telephone, and 3 percent each relied on in-house sources or word-of-mouth advice.

Concludes Jeffrey K. Brown, the ORC research consultant who oversaw the study:

"These owners and presidents were surprisingly sophisticated and hands-on" concerning technology matters, "and they knew very well what the capabilities of their companies were in terms of information technology. . .

"What they did not know was how they wanted to advance through information technology. That's why they were apt to bring in the consultants." ■

TRENDS

# Is It New? Or Is It Hype?

Twice a year, in the spring and the fall, the microcomputer industry gathers for a major trade show called Comdex, which attracts thousands of sellers, buyers, lookers, and media folks.

This year's spring Comdex, at the end of May in Atlanta, saw the introduction of Microsoft's new operating system, **Windows NT**, the upgrade of IBM's operating system **OS/2, Version 2.1**, and lots of new or improved hardware and software.

Most of the show seemed to be carried away with multimedia—text, graphics, sound, and video in one program—so sound blasted at attendees from practically every booth.

In the end, there seemed to be nothing revolutionary, but some welcome evolutionary changes in products. Small businesses—and, increasingly, large businesses—don't want to be changing technology every six months. The directions have become clear, however, and here's our reading of a few of them:

**1. You'll have to increase hardware power.** You can get along for several more years with 80286 machines and capable DOS programs. But if you want the kind of functionality that Windows, OS/2, multimedia, and powerful networking can give you, then you should expect to upgrade to machines based on Intel Corp.'s 80486 chip or its new **Pentium**, with lots of RAM (think in terms of 16 megabytes), big hard drives (nothing less than 200 MB), and lots of expansion slots. And the Mac world is doing the same thing, so don't think that your Mac Classic will carry you through the '90s.

**2. Multimedia will find a place.** Right now, multimedia looks like a solution in search of a problem. And it will be at least two or three years before real, usable programs for small businesses become practical. Multimedia's principal uses now are for training and technology, but we had the bemusing experience of sitting in on a session about multimedia technology in which none of the sound systems worked properly and none of the presentations proved to be truly multimedia.

**3. Check out CDs.** Only one major component of multimedia, the CD-ROM player, has started to sell—and sell in large numbers. This method of storage puts a huge amount of information on one of those little silver disks. Costs are dropping, the technology is improving, and the library of CD titles is growing exponentially. More and more programs will be delivered this way—Windows NT and OS/2 2.1 among them. Many users will never load programs to their hard drives but will simply run them from the CD.

**4. Peripherals get more affordable.** Prices of all types of printers are dropping. Excellent laser printers under $600 are now available. Software and hardware can make old printers perform better, giving them new life. Samsung is about to announce an affordable and space-saving device that we suspect will quickly find a home in the small office.

**5. You will carry it with you.** Portable computers have become the industry's big sellers, and especially interesting are the "docking station" machines. You work on your color portable machine, and when you get back to the office, you slide the portable into a space designed for it, and—presto!—you have the big keyboard, storage, and full-sized screen that you can't carry on the road. What's more, small hand-held devices like Sharp's **Wizard** or the new small "ultraportables" like Hewlett-Packard's **OmniBook 300** let you take notes that can be dumped to desktop machines and networks.

**The Comdex computer show** *in Atlanta: Developments will benefit small business.*

**6. Offices will work together.** As we all learn more about what computers can do, we want to have everyone not only connected through networks but also able to work together on the same documents or files. All the major publishers are coming out with bundled products intended to enable cooperation among several important applications and their users. Microsoft, Borland, and WordPerfect all have such "office" packs. Lotus Development Corp. has a new release of **Lotus Notes**, which allows multiple sharing of spreadsheets.

We'll have more to say about all of these areas in the coming months. ■

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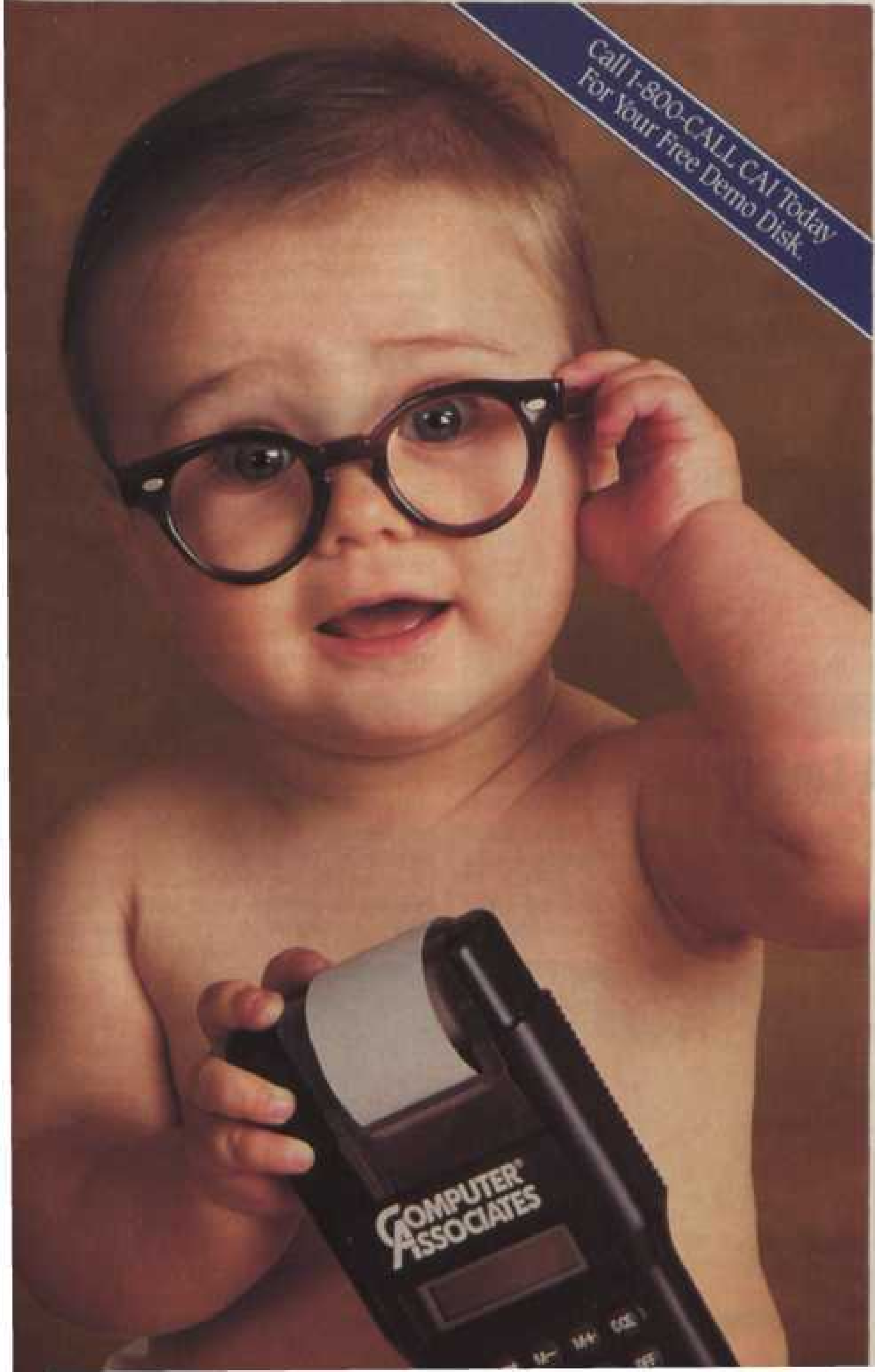


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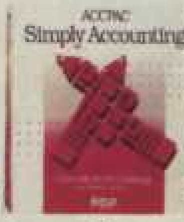


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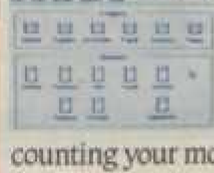

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DESKTOP PUBLISHING

# Friendly Yet Powerful Software

Desktop publishing software generally comes in two varieties. The first includes a dozen or more inexpensive programs that novices can use without training to produce fliers, banners, and other simple documents; the second consists of several costly, feature-rich applications for use by design professionals in producing complex documents and publications.

A welcome exception is **Version 2.0 of Microsoft Publisher**, which is simple and affordable enough to appeal to casual users yet powerful enough to satisfy many professionals.

Like most software that runs under Windows (Microsoft Corp.'s popular graphical user interface), Publisher is appealing to look at and instinctive to operate. Its user-friendliness is enhanced by Microsoft's unique Page Wizard Design Assistants, which provides templates and step-by-step instructions for producing attractive business tools such as brochures, fliers, invitations, newsletters, letterheads and envelopes, business cards, and business forms.

Unlike other simple desktop publishing packages, Publisher possesses many advanced features for creating and manipulating typographic and art elements.

The suggested retail prices of all this ease and power are $139 for new users and $99 for those upgrading from Version 1.0. Moreover, the box contains a $20 rebate coupon for registered users of any of several Microsoft products.

We usually evict review copies of software from our hard disks in short order; however, Publisher is likely to be a long-term resident.

**Microsoft Publisher,** *on view above, and distinctive results from* **Paper Direct.**

## Classy Paper Complements Your Computer Art

Even after you master Microsoft Publisher, you will not be able to produce professional-looking business communications on your own without high-quality paper for your laser printer.

Paper Direct, a mail-order supplier of printer paper and accessories, offers a **Complete Presentation Set**. It includes 100 letterhead sheets, 100 envelopes, 100 brochure mailers, 500 business cards, and 100 paper frames—paper with attractive borders for announcements and signs. The cost is $99.95.

Version 2.0 of Publisher supports many of the Paper Direct designs: At the click of the mouse, the document appears on your screen in color exactly as it will print out.

To obtain a free Paper Direct catalog, call 1-800-A-PAPERS. ■

ACCOUNTING

# Systems Ratings

CTS, an independent publisher of software evaluations, in Rockville, Md., has issued its sixth annual survey of accounting software for PCs. The packages rated are Accpac BPI, Accpac Plus, MAS90, Open Systems, BusinessWorks, Great Plains, Macola, Platinum, RealWorld, and Solomon.

These are the big names in full-featured accounting systems, and if you are thinking of installing or changing a system, you may want to get your hands on the survey. It's $79 plus $5 for shipping from CTS, 11708 Ibsen Drive, Rockville, Md., 20852; 1-800-433-8015. ■

PRINTERS

# High Technology At A Low Price

Hewlett-Packard's new **LaserJet 4L** printer performs at a very high technological level given its retail price of $849 and street price of as little as about $650.

You can find plenty of low-end printers that are as fast as the 4L (four pages per minute), but you will be hard-pressed to find one that can match the 4L in other performance categories.

For example, although the 4L produces only the 300-dots-per-inch resolution output that is standard in today's low-cost printers, pages produced by the 4L appear to be of substantially higher quality, thanks to a combination of H-P's Microfine toner and exclusive resolution-enhancement technology.

Moreover, the 4L incorporates technology that effectively doubles the printer's 1MB of memory, which allows users to print complex documents with many typefaces and graphic elements. These documents would choke other printers with 1MB RAM.

The 4L comes with 26 internal typefaces as well as excellent driver support for Microsoft Windows and for many popular DOS programs. The printer has a 100-sheet paper tray as well as a manual-feed slot for envelopes and labels, and it is easy to operate—the 4L has only one button.

A version of this printer (the 4ML) for Macintosh users and others who require Adobe Postscript output will be available later this summer for a list price of $1,279.

For more information about either printer, call Hewlett-Packard at 1-800-752-0900 or 1-800-333-1917. NB

**Hewlett-Packard's** *LaserJet 4 L: resolution enhancement.*

# How To Choose A Distributor

*Be careful when you're looking for someone to help put your product in customers' hands.*

*By Julie Candler*

Ever since Sutter Home Winery, Inc., was founded in 1946 in St. Helena, Calif., one major factor has been responsible for its success, says Chairman and CEO Bob Trinchero. That is the winery's ability to choose good distributors and build a cooperative relationship with them. "I have always felt it was a real partnership," Trinchero says.

Adds David Dickerson, vice president, public affairs, for the Wine and Spirits Wholesalers, in Washington, D.C.: "In the wine business, there's nothing better than a good wholesaler—a middle-tier distributor who receives goods from the producer and in turn takes orders and markets that brand and distributes and delivers it to every retail outlet in its area."

When George Ullrich analyzed sales figures for Walker Manufacturing, a maker of automotive exhaust products in Racine, Wis., he discovered that one distributor's volume was unacceptably low. Ullrich, who is marketing manager for performance products such as stainless-steel mufflers and power-producing exhaust pipes, decided four years ago to replace the low-volume distributor.

Within a year, sales of Walker's performance products increased more than 40 percent in the slightly larger territory covered by the new distributor. "That's not unusual when you start shipping to somebody who is doing the job right," says Ullrich.

As in the cases of Walker Manufacturing and Sutter Home Winery, good distributors can make the difference between success or failure in the areas they cover. Says John Ettlie, associate professor of operations management at the University of Michigan's School of Business Administration: "In today's competitive world, you have to assume that your manufacturing capability and your product will be obsolete in five years. People who haven't sorted that out will be out of business shortly. Distributors can help in doing product planning for the future."

The challenge is to find distributors who will provide the capable help a company needs.

A typical distributor (the term is generally interchangeable with wholesaler) buys goods and resells them to retailers. For manufacturers, a distributor often provides many services, including warehousing of products and parts, as well as advertising and promoting them. The firm may publish and make available to retailers a catalog that includes your products, along with others it carries.

Some distributors handle packaging and set up countertop displays, carousels, or racks. Some may train retail sales forces to make them knowledgeable about your product. They may also provide service backup should the ultimate consumer have a problem with your merchandise.

In some cases, distributors will even do the "detailing": checking the supply of your product on retailers' shelves and restocking when necessary. In addition, they will select the most cost-effective shipment channels and make sure deliveries are made on time. The cost of these services varies from industry to industry but, on a per-unit basis, averages between 6 and 25 percent of a product's retail price.

PHOTO: [illegible]

**Sutter Home Winery** *built its success through "a real partnership" with its distributors, says Chairman Bob Trinchero.*

The best way to find a good distributor, says Bernard J. LaLonde, professor of transportation and logistics at Ohio State University, is simply to ask around. "To get a line on specific distributors," he says, "talk to their customers to figure out if they are treating them well. Talk to competitors about whether that distributor is a good and honest rival."

Also talk to what LaLonde calls "special knowers": your suppliers, lawyers in the community who are knowledgeable about small-business practices, business consultants, and industry gurus who understand the specifics of your market.

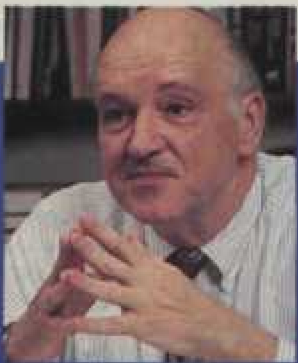
It is also critical to get a distributor who is conscientious about paying bills. You have a right to ask distributors for their banking connections and to talk to their bankers, says LaLonde.

"Without financial responsibility," he says, "there are two risks you take. First, the risk of financial loss if you have a large amount of inventory with a distributor who goes belly-up and leaves you in a long line of creditors."

The other risk, he says, is that when you pick a distributor, you are trusting that firm with your most important asset—your customer. "If your distributor starts getting in financial trouble and doesn't give good service, you lose your customer."

Small manufacturers without large field sales forces need distributors who

can take over the selling effort. The sales talent of Keystone Warehouse, a distributor in Exeter, Pa., put the firm high among the 25 performance-parts distributors supervised by Walker Manufacturing's George Ullrich. Keystone owner Joe Amato builds volume with national advertising on cable TV's TNN channel. A drag racer himself, Amato runs ads for Walker products on the National Hot Rod Association show, "NHRA Today." "I call that a value-added service," says Ullrich. "It's doing something to help market the product."



"To get a line on specific distributors, talk to their customers," says Bernard LaLonde.

About 50 salespeople visit retailers of natural foods and health and beauty aids for Lotus Light Enterprises, Inc., a distributor in Silver Lake, Wis. Michael Charney, sales and marketing coordinator for the Middle Atlantic region, says the salespeople represent about 400 U.S. and overseas companies whose lines include a total of 7,500 items—teas, herbal and aroma-therapy products, books, videos, and educational materials. "Our most important service is providing a forum for our customers' products," says Charney. "We show their products to retailers and exhibit them at trade shows."

Lotus Light boosts sales by providing an 800 number retailers can use and by setting no minimum amount for orders. "It's a major headache for a store if they need one small item and there's a $200 minimum," says Charney. "Also, we can ship any order from our warehouses within 24 hours. We don't like to carry a product if the manufacturer is unable to deliver. Retailers have to know that if they order the product, there is every likelihood that it will arrive on time.

"I think when any company is looking for a distributor, they should look at the service they will get," advises Charney. "We carry not only the good-selling items but products that are new and different." Charney also advises seeking distributors that are competitive in their pricing to retail outlets.

Sales are also the main function of the broker, which can be another link in the chain between manufacturer and retailer. Brokers in effect serve as a manufacturer's sales force, placing the product with distributors.

PHOTO: STOM SOBOLIK—BLACK STAR

**Distributor Lotus Light Enterprises** *provides "a forum for our customers' products," says Michael Charney, sales and marketing coordinator for the Middle Atlantic region.*

Susan Bennett, owner of All in the Family, Inc., a brokerage in Great Falls, Va., sells natural and health products to distributors, including Lotus Light. "The least expensive way to sell a product is through brokers, who know how to work with distributors," Bennett says. "People who use brokers share a cost with other producers and pay a commission, not a salary, on what the broker sells. Brokers also can help a new company choose a distributor."

Bennett and her nine salespeople cover the East Coast for producers of alternative-medicine products, natural and health foods, and beauty aids.

"The best way to find a good distributor," Bennett says, "is to ask a retailer. They are the ones who have to work with that company."

Instead of brokers, Alflex Corp., of Long Beach, Calif., relies on 34 independent manufacturers' representatives around the nation to sell its flexible conduit, used to protect copper wire and other products.

(Manufacturers' reps handle specific territories for a manufacturer on a continuing basis, operating as independent salespersons who are paid commissions. They thus typically do more for a given manufacturer than do brokers, which usually do not have continuing relationships with manufacturers. Instead, brokers bring buyers and sellers together in individual transactions.)

"Using independent manufacturers' reps is more cost-effective for us," says Andrew Hemingway, Alflex's vice president. "We pay them an agreed-upon commission per product. And our process of choosing distributors isn't sophisticated. If you are an electrical wholesaler, and you are creditworthy, we will open you up."

The territory of each manufacturers' rep usually includes about 150 of Alflex's nationwide network of 3,800 wholesaler-distributors. The reps provide warehousing for their territories and ship the product.

Once a company chooses a distributor, a written contract is advisable. It's smart, too, says Ohio State's LaLonde, to monitor the distributor's performance continuously to make certain you are being represented well. He advises periodically calling a sample of your ultimate customers. You can identify some of them if you make available, with your product, warranty-registration or customer-survey cards that ask for addresses and phone numbers. LaLonde suggests checking with a 5 percent sample over the course of a year.

There is, however, "no getting around trust," he says. "Anybody can break a contract or sue. You can hire a lawyer, but if the person you are dealing with doesn't want to behave the way you want, they don't have to. Find someone you can trust, and build on that trust." NB

MARKETING

# Trade Shows' Direct Appeal

*Making these business-to-business events part of your marketing mix can help secure your firm's long-term growth.*

*By Meg Whittemore*

**Hearing-aid maker** *Beltone Electronics uses trade shows to generate leads on possible dealership candidates, says Michael Maziarek, national recruiting manager.*

Chicago-based Beltone Electronics Corp. has long relied on word-of-mouth to find new dealers for its hearing aids. "We also looked for salespeople who worked for existing dealers who wanted a business of their own," says Michael Maziarek, who, as national recruiting manager for Beltone, has a role in the company's marketing efforts.

Those marketing methods enabled the 53-year-old family business to grow to more than 3,000 authorized independent sales and service centers in the U.S. and 50 other countries.

But Maziarek convinced the company's CEO that that approach wouldn't be enough to generate the growth he envisioned. Maziarek saw "an untapped market of more than 15 million Americans who currently need hearing aids," he says, and he concluded that as the baby-boom generation grows older, many of its members in coming years will need hearing aids. In short, Maziarek says, he saw "an industry on the verge of unprecedented growth."

Maziarek knew the company had to move quickly to position itself for rapid expansion. So this year he made trade-show exhibitions a significant part of Beltone's marketing plan. The results thus far have been heartening. "Our leads have been unbelievable in terms of the number we generated from interested people," he says. "I can attribute that entirely to [our participation in] trade shows."

Although some trade shows target the consumer market, most are business-to-business events—the type that Beltone uses to sell its dealerships—and they are becoming a popular marketing method among companies of all sizes.

This year, more than 3,342 trade shows in the United States will be attended by more than 59 million people, according to *Tradeshow Week Data Book*, a Los Angeles publishing company's annual directory of trade shows worldwide.

Separately, the Trade Show Bureau, a nonprofit research and marketing organization, estimates that there are about 3,300 small, regional shows that are not included in *Tradeshow*'s survey. According to trade-show industry experts, participation in such shows has been growing steadily over the past 10 years.

Trade shows generate more than $129 billion a year, according to the Trade Show Bureau. The money is spent for, among other things, airline and other transportation costs, hotels and meals, freight charges for exhibitors' displays, on-site show services, payroll for employees working the shows, and space rentals.

Because trade shows typically attract thousands of interested attendees for periods of two to three days, such shows constitute a forceful medium for marketing, says Mim Goldberg, vice president of Marketech, a Tulsa, Okla., exposition training firm. "Where else in the space of three days can you see and speak to that many people?" she says.

In a survey conducted by Simmons Market Research Bureau, based in New York City, for the Trade Show Bureau, 91 percent of respondents said they find trade shows are "extremely useful" sources of purchasing information. The respondents—70 percent of them decision makers in their companies—cited trade shows as the best way to see products and to evaluate competitors.

The costs of exhibiting at a trade show can be a stretch for a small firm, of course, yet doing so could prove to be a solid investment for growth. A firm should first determine its overall marketing goals. For example, does it want to increase its sales leads by a certain number? If so, how? By advertising, direct mail, word-of-mouth? If its current marketing methods are producing flat results, then exhibiting at trade shows is worth considering. The core strength of a trade show is that it can—and, if it's the right show, it will—increase a firm's exposure to potential customers.

To take full advantage of the significant marketing opportunities at a trade show,

MARKETING

industry experts say, companies should consider some basic guidelines for success. For example, Goldberg counsels her clients to pay attention to promotion and the setting of objectives before a show. "Most companies just go to a show and set up," she says. "Only 20 percent of the companies exhibiting [at a trade show] set objectives and communicate them to their staffs." Poor planning can mean fewer qualified leads than possible and a disappointing sales performance.


PHOTO: BRUCE ROREH

**Plan far ahead** *when you take a trade-show booth, says Nick Helyer, CEO of Blenheim Exhibitions.*

Earl Scott's experience underscores Goldberg's point. Scott is the director of marketing for Jet Service Enterprises, Inc., a 30-employee firm that repairs and overhauls components of jet aircraft. Based in Bethany, Okla., Jet Service has taken an exhibition booth every year since 1982 at the National Business Aircraft Association trade show, in Dallas.

"We'd take a group of people from Jet Service down, set up a booth, put some tables and chairs up, and just visit with the people that everybody already knew in the industry," says Scott. Collecting business cards and socializing were the mainstays of the sales efforts.

Even though the company continued to get some new business by taking part in the show, the vice president of Jet Service decided to get some trade-show training. "With a little bit of structure and some education on how to *do* a trade show, we now have a whole different opinion of what these shows can mean to our future business," says Scott.

One skill that Scott and the company's senior managers learned, he says, was how to start conversations with those passing the firm's booth. "Ask open-ended questions," says Scott, "not the questions that can be answered yes or no. You only have a certain amount of time to qualify that person, so your opening question is important." To "qualify" a person means to find out if he or she is truly a potential customer—one who can use your product or service and has authority to make purchasing decisions or at least set up a sales call.

Scott also now makes sure he closes the conversation with an appointment for a follow-up conversation within a week. "We now leave a trade show with solid potential new clients," he says.

Goldberg says many salespeople are unaccustomed to the time constraints that they normally encounter in talking with visitors at a trade show. Typically, an exhibitor has 10 to 15 minutes in which to make the introductions, find out if the person is qualified, communicate the company's message, and determine the attendee's needs.

"Qualifying leads is the most important thing for any company to do at a trade show, and it is the easiest thing to do wrong," says Nick Helyer, CEO of Blenheim Exhibitions, the U.S. division of a London-based trade-show management firm. Learning how to avoid wasting time on "tire kickers"—attendees not serious about your product or service—is an acquired skill, he says.

Beltone's Maziarek weeds out window shoppers through the use of a form that profiles each prospect for the position of Beltone dealer. The profile requests information on the attendee's professional background and financial resources. "If people are interested in our business, they will take the time to fill out the questionnaire and return it to us," he says.

Maziarek usually takes a small booth, about 8 by 10 feet, for a two-day show at an average cost of $1,450, which includes electricity. He generally takes at least one person with him, and he figures on $2,000 for travel and accommodations per show. In the first half of this year, Beltone spent $41,400 exhibiting at 12 trade shows.

Jet Service's Scott brings eight people to work the company's 10-by-20-foot booth. Costs for the booth, travel, accommodations, and employees' salaries total "$10,000 to $15,000" per show, he says.

If your company is small and your budget is tight, there are tactics you should keep in mind to maximize your presence at a trade show. For example, increase your exposure by taking a space at an intersection of two aisles, says Blenheim's Helyer, and "and don't ... put a row of tables in front of your booth, since it blocks anybody from getting in."

Promotion before a show is vital. "Send your current customers and prospects a personal invitation to visit your booth at the show," says Helyer. "You'll be surprised at how many people will come, and it is a great way to open up a conversation."

How do you find prospects to invite? You can buy lists of people who have expressed interest in products and services like yours from list-management firms, says Goldberg. Occasionally, the trade show's management company can sell you lists of names of those who have attended previous shows. "Don't overlook your own in-house sales managers," she adds. "They often have their own lists of hot prospects."

Start planning for a trade show at least six months in advance, says Helyer. If you have no show experience, attend a local trade show just to get a feel for the medium. If you already advertise, mention the show in your ads and other materials that you send to your customers and prospects, says Helyer. "The reason," he explains, "is that people can get cheaper air fares and hotel packages that far in advance, and you want to give the attendees lots of lead time to make their travel plans."

Keep in mind that for the most part, "attendees have stopped going to trade shows just for the fun of it," says Fred Fox, president of Sagamore International Inc., a management consultant and training company in Ottawa, Ontario. "They come with serious objectives and questions they want answered."

Trade-show selling is finding its place in the marketing mix of companies on the move. The trick is to understand how to use the medium most effectively for your business objectives. Jet Service's Scott offers this advice: "You are wasting your money if you go to a show, take some staff, and just occupy the space. You've got to learn how to reach out and *work* the show to your advantage, and that means learning a new way of selling." NB

## Resources

The Trade Show Bureau, a research and marketing firm in the exposition industry, offers a wide range of publications, research reports, books, audio and video tapes, and computer software on the exhibition industry. It also offers trade-show directory listings.

For a free publications list, write or call the Trade Show Bureau at 1660 Lincoln St., Suite 2080, Denver, Colo. 80264; (303) 860-7626.

The International Exhibitors Association's monthly newsletter, *IDEAS*, contains articles on exhibition industry trends, news, and features. An annual subscription costs $30.

To order or to obtain more information about member services, contact the association at 5501 Backlick Road, Suite 200, Springfield, Va. 22151; (703) 941-3725.

MANAGING

# Rules You Don't Want To Make

*Ill-advised personnel policies could be costly for your firm.*

*By Edgar S. Ellman*

Good personnel policies help attract and retain good employees. They also reduce costly turnover and minimize suits alleging violations of labor laws. And they save valuable time.

Bad policies result in a bevy of headaches, including the loss of good employees and the costs of defending against lawsuits.

A wise executive, striving to operate a well-managed company, should learn to recognize policies that can cause low morale, diminish productivity, and violate federal or state labor laws.

Here are some guidelines on what not to do when setting personnel policies, whether written in an employee handbook or expressed orally:

■ *Do not try to bar employees from sharing wage or other compensation information with each other on the ground that it is a confidential matter between the company and each worker.*

Why have a policy nobody abides by? Moreover, such a prohibition would violate employees' rights to compare wages and other benefits in developing their plans to vote for or against a labor union. Because of such a policy, the National Labor Relations Board once set aside an election that a company had won and allowed the union to organize.

■ *Do not offer to help employees avoid jury duty.*

This type of offer would encourage the shirking of a civic responsibility. Moreover, lying about personal circumstances to avoid jury duty is illegal in every state.

■ *Do not assert the right to withhold from employees' wages any money they might owe the company for uniforms, damage to equipment, or other charges.*

A policy for such withholding would violate labor laws and would have no legal power behind it even if you had advised an employee of it before employment. The only legally safe way to withhold wages is to have the employee sign an agreement to that effect. When an employee incurs a debt to a company, it is best to put the repayment plan in writing.

*Edgar S. Ellman is a Chicago management consultant specializing in personnel administration.*


ILLUSTRATIONS: BILL COULTER

■ *Do not treat maternity leave differently from other types of disability leave.*

For more than 10 years, federal law has prohibited differential treatment of maternity leave. By law, pregnancy must be treated the same as any disability, both for unpaid time off and for insurance coverage. Even so, some state laws grant longer leaves for maternity than for various types of disability.

The federal Family and Medical Leave Act, effective Aug. 5 for firms with 50 or more workers, will require those companies to provide eligible employees up to 12 weeks of unpaid leave upon the birth of an employee's child or the employee's adoption of a child; or to care for a seriously ill child, spouse, or parent; or because of an employee's own serious health condition. During the leave, the employee's preexisting health benefits must be maintained by the employer. (See "Meet The New Law On Family Leave," in the April 1993 *Nation's Business*.)

■ *Do not set a blanket prohibition on solicitations on company operating time or premises, and do not require advance management approval for distribution of any type of literature or signature drives.*

Any such policy would restrict employees' rights to organize, to petition, and generally to discuss their common circumstances. You must permit solicitation of any kind or for any cause during nonworking time and in nonworking areas, and this should include breaks and mealtimes, or in the locker room, lunch room, or the company parking lot.

Soliciting for a cause is not the same as fund-raising for a charity, such as selling cookies or raffle tickets. Such fund-raising should be subject to advance management approval and restricted to nonworking situations.

■ *Do not use broad statements of disapproval as policy on nontolerance of sexual harassment or racial/ethnic slurs.*

Policy in these important areas should be specific. It should state that investigative action will be taken promptly, and that someone other than the supervisor (who might be the target of the harassment charges) may be contacted if the employee wishes.

The policy should also provide detailed guidance on what conduct and comments are not tolerated.

■ *Do not limit continued health-insurance coverage offered to workers leaving the company to conversion of group insurance to an individual policy.*

For companies with 20 or more workers, a limit of this sort would violate provisions of a federal law, the Consolidated Omnibus Budget Reconciliation Act of 1985.

The so-called COBRA provisions allow for a period of continued group coverage

at group rates for employees and their covered dependents for up to 36 months. COBRA clearly requires that you advise employees and dependents of this right. There are some stiff penalties for failing to do so.

Some states have COBRA-type laws that apply to firms with fewer than 20 workers.

■ *Do not assert the right to dismiss one of two employees who marry each other.*

Claiming such a right could prompt a sex-discrimination complaint. The U.S. Equal Employment Opportunity Commission has deemed it illegal to discharge an employee whose spouse works for a competitor, and that determination could be invoked in the case of an intracompany marriage. You may make transfers, however, so that married couples do not work together in the same department, and it is legal to have a company policy that bars hiring the spouse of an employee.

■ *Do not set broad policy on job appraisal, wage reviews, and intent to be fair on compensation.*

A generalized policy of that nature is what management consultants call a non-policy because it does not say when or how wages and performances are reviewed. This policy, to be effective, must be specific as to timing and standards for performance reviews.

All companies have personnel policies, written or not. If you don't have a policy handbook, it would be a good idea to prepare one. Consultants and attorneys can help you do this. Fees generally start at under $1,000 and go higher depending on the size and complexity of the handbook. There are also several computer programs for do-it-yourself handbooks.

Many business owners fear that a handbook will be construed as a contract. Indeed, some courts have said just that, particularly in cases where the handbook contained no formal disclaimer stating that it was not a legal agreement, or when a company failed to abide by its stated policy.

Before issuing a handbook, have your attorney check the manuscript to be sure it conforms with applicable state and federal laws. NB

*To order reprints of this article, see Page 71.*

MANUFACTURING

# Strength In Numbers

*Here's how small shops can get together to keep jobs and revenues from fleeing overseas.*

*By John S. DeMott*

Don Alsted, president and general manager of PMF Industries, a Williamsport, Pa., producer of stainless and heat-treated steel products, wants his company to be the U.S. manufacturer of a "microclave," a new type of microwave sterilizer developed by a German company. Hospitals would use the device to sterilize biomedical refuse, or so-called red-bag waste. When so treated, the waste can be disposed of in ways less costly than those that hospitals now must use to conform with strict federal and state environmental regulations.

PMF, whose sales are about $5 million annually, is well-positioned to contribute to such a product. The company can shape, weld, and do almost anything with stainless steel. In fact, a highly polished chamber it already makes for hospital autoclaves, which sterilize reusable medical equipment, would go into the microclave.

PHOTO: STERRY WILD

**Small shops' expertise** *can be joined through consortiums to make products they couldn't make on their own, says Don Alsted, president of PMF Industries, a Williamsport, Pa., manufacturer of stainless-steel products.*

But PMF has no expertise in making other parts of the microclave—things like wire harnesses, metal cabinets, or circuit boards. So PMF and two other area companies—JPM Co. of Lewisburg, a wire-harness maker, and LSI Controls of Waynesboro, an electronics designer—have formed a consortium to bid for the North American manufacturing license for the microclave.

The Pennsylvania consortium, or "network," is an advanced example of the hottest thing going among small American manufacturers right now, says Stuart Rosenfeld of Chapel Hill, N.C., who runs a policy research company called Regional Technology Strategies Inc.

A year ago, Rosenfeld organized a conference among U.S. and European policy experts and manufacturing people in Colorado to promote "flexible manufacturing networks." Network-forming efforts by state governments and the U.S. Department of Commerce grew partly from that get-together. Several states are providing start-up funding to help small factories organize consortiums, and about 75 networks—some incorporated, others not—are up and running.

A major impetus for forming such alliances is global competition. Pressured to deliver better quality at lower cost by powerful customers like Detroit's automobile manufacturers, the nation's 367,000 small manufacturers are scrambling to increase productivity, efficiency, and competitiveness. They're doing it by turning to faster, more efficient technology and to newer ways of organizing themselves, like the consortium approach.

Under the name of the Pennsylvania Technology Consortium, the Williamsport organization intends to use the three companies' complementary abilities and machinery while helping stem the flow of U.S. manufacturing jobs and revenues to other countries. At the same time, the three consortium partners will stay rooted in Pennsylvania and remain independent.

If the consortium gets the microclave project—other companies, including one in South America, are also bidding to make the device for North America—it will begin assembling the appliances in January in a factory in Williamsport. Marketing would be done by another company lined up by the consortium.

Even if it loses the microclave to a competitor, however, the consortium will look into other products. Says Alsted: "Either it will be this item or it will be some other item. Our specialty is going to be in the medical, aerospace, and food-equipment area."

Independent companies have been collaborating on projects for years, of course. Hollywood is one of the oldest examples—hundreds of technical specialists come together to make a movie, then drift apart until the next movie. What's special about the Pennsylvania effort is that the companies in effect are forming another company totally apart from themselves to make a new product that none of them could make on their own.

There has been some resistance to the consortium idea among U.S. entrepreneurs, says Rosenfeld, and it is reinforced by America's long tradition of antitrust policy—what he calls a "business and legal culture that does not look favorably on any kind of cooperation."

That should end, says PMF's Alsted, as should the fears about working together. He says it's much better for a shop with five or 10 employees to work with 10 other companies, giving it the resources of "a 50- or 75-man company."

The idea, says Rosenfeld, is to "stay small but act big."

Antitrust considerations apparently are of little concern to companies forming networks, chiefly because their enterprises are regional and would not significantly influence prices or control markets.

The value of collaborative efforts to make U.S. companies more competitive with their European and Japanese counterparts is reflected in public policy. The Commerce Department is firmly behind

the consortium idea, as is the Clinton administration. In addition, legislation pending in Congress would amend the National Cooperative Research and Development Act to allow even more research collaboration among competitors under certain circumstances. The legislation is supported by companies that fear they might be prosecuted under antitrust laws if they set up joint arrangements.

The spreading networks of small U.S. companies are similar in concept to the "strategic alliances" put together across international boundaries in recent years by far larger corporations to increase marketing muscle and make more efficient use of capital. In Florida, some 30 companies got together to form the Technology Coast Manufacturing and Engineering Network, with headquarters on the joint campus of Okaloosa-Walton Community College and the University of West Florida in Fort Walton Beach. So far, the network hasn't produced any products, but one of its members does have a contract to produce parts of the Mil-Star military satellite, says David Goetsch of the college.

In Oregon, where the consortium idea is growing fast, 20 networks encompassing 200 companies in most of the state's 13 major industries have been formed, says Janet Jones, the key-industries development manager of Oregon's Economic Development Department.

Eleven companies make up the New Products Network, and one of its products, with four firms involved, is Canned Greetings—candy in a can for birthdays and other events. Shorthill Candy Co. makes the candy; Agripak Inc. packages it; and Oregon Fruit Products, Inc., puts it into a can that has a label designed by Creative Co., Inc., and distributes it. Canned Greetings has been test-marketed in 40 stores around the United States, and sales could hit $1 million this year, says the network's president, Michael Perman.

Another reason consortiums are being formed is that small factories are being asked to do more. Where a decade ago large U.S. manufacturers were seeking to cut costs and downsize by shifting huge chunks of expensive manufacturing to hundreds of smaller job shops, they're now winnowing those lists even further to a couple of dozen suppliers that can deliver larger portions of the final product faster and at the best price.

Michael Taback, an engineer who is executive director of the Midwest Manufacturing Technology Center, in Ann Arbor, Mich., uses the auto industry to illustrate this point. (The center is one of seven such facilities managed for the National Institute of Standards and Technology of the U.S. Department of Commerce.) Says Taback: "The automakers are forcing a consolidation of suppliers and, in the process, requiring suppliers to take on more design capability than ever before."

Small manufacturers, which Taback defines as those with 20 to 500 employees, already are responsible for about half the value added to all goods made in the United States. The new requirements mean small firms must be prepared to make entire subassemblies and systems, and in many instances even design them, instead of simply cranking out standalone widgets from drawings submitted by customers.

PHOTO: ©SANTA FABIO—BLACK STAR

**With automakers demanding** *higher quality at lower prices, Edgewood Tool and Manufacturing, in Romulus, Mich., has to get the most from employees and machines, says the auto-parts firm's president, James Lozelle.*

In Romulus, Mich., near Detroit, Edgewood Tool and Manufacturing Co. turns out a complex array of sophisticated hinge assemblies and hardware components for vehicles such as the Mazda 626, the Ford Ranger, and the new Dodge Viper. The company is the largest maker of such parts in North America; in industry parlance it's a "tier 1" supplier, meaning it sells directly to Ford, Chrysler, and Mazda's plant in Flat Rock, Mich. Sales are now at about $50 million and growing by 33 percent annually.

Edgewood's president, James Lozelle, who is also this year's chairman of his specialty's trade group, the Precision Metalforming Association, based in Richmond Heights, Ohio, says that the company's design engineers start working at a car model's earliest design stages, usually with instructions from the automaker, to, say, design a hinge for a trunk lid with a factory cost of $1.

That discipline—working within a price limit while keeping the job profitable—drives Edgewood to get the most from its 300 employees and its machinery, especially with automakers pressing ever harder for higher quality at lower prices. Says Lozelle: "The buzzword is 'full service.' You have to have full design capability, exemplary quality, exemplary delivery, and a broad-based manufacturing capability."

Lozelle, an enthusiastic admirer of Japanese manufacturing who visits Japan frequently, also has introduced a number of Japanese-inspired techniques to Edgewood's factory floor, among them "self-directed" work teams that decide how they will make whatever needs manufacturing. The teams even have budgets for purchases of small items to make their jobs easier.

Small U.S. manufacturers are also turning toward ever more sophisticated technologies, such as computer-aided design and computer-numerical-controlled milling, which lets a machine turn out precisely cut parts automatically without an operator. In addition, companies also are using such procedures as "hard turning" to allow faster cutting of hardened steel parts to close tolerances. Still another technique uses powerful surges of electricity and blades of carbon to hollow out metal in intricate patterns.

Another way that small firms are trying to become more productive is through retrofits. A Pennsylvania company called Centroid, for example, sells a kit priced at $8,000 to $10,000 that can computerize old-line Bridgeport milling machines, found in nearly all small U.S. metalwork-

ing factories, enabling them to automatically turn out precision parts faster and at less cost.

Yet the costs of adding expensive equipment to do anything other than what they already do are prohibitive for many small manufacturers, making it impossible for them to bid on new work that's far removed from the familiar. So the consortium, its proponents maintain, may be an idea whose time has come. Says PMF's Alsted: "Instead of taking five or six years to become really good at laser drilling, you go out and link up with somebody whose specialty it is to do that."

PMF and the other consortium members wouldn't have to increase employment to take on new work, although the consortium itself will hire assemblers and other people. Nor would the consortium's members be forced to add expensive production equipment to make things they don't already make. Theoretically, products could range from a jet engine to an automobile alternator—"whatever fits within the specialties of the member companies," says Alsted.

Consortiums also show how government can work with industry to improve the competitiveness of small manufacturers. The Pennsylvania General Assembly set up the Ben Franklin Partnership in 1982 to nurture advanced technology and start-up companies to keep jobs in Pennsylvania. The Pennsylvania Manufacturing Consortium is applying for an $85,000 seed grant to supplement start-up capital from its members.

PMF's Alsted is also working with the Industrial Modernization Center (IMC), of Montoursville, one of eight such "industrial resource centers" in Pennsylvania that aim to increase the technical competence of small manufacturers. A not-for-profit organization chartered by the state, the IMC receives state and federal funds to upgrade small factories' technology and to support advisory services for businesses. The center also collects fees for such services, though the companies are charged less than they would pay consultants for the same help.

One of IMC's more visible efforts is its blue-and-white "Shop With a Future" trailer, which totes two engineers throughout central Pennsylvania to give demonstrations of computerized milling machines and other devices to promote increases in small-shop productivity. Staffed by Jim Bodnar and Zane Patalive, financed by a grant from the National Institute of Standards and Technology, and also supported by the Williamsport/Lycoming Chamber of Commerce, the traveling technology show has played for about 160 companies since early last year.

The chamber's president, Peter Loedding, worked with numerous federal and

> **Many more American manufacturers are looking at a smorgasbord of potential tactics, whether they're home-grown, whether they come from Japan or Germany or Italy. More manufacturers are willing to look and listen.**
>
> —Michael Taback
> Midwest Manufacturing
> Technology Center

state officials in setting up the IMC, which was patterned after an earlier, similar program in Lycoming County. He says: "It has been driven entirely by the business community, and therefore has been able to put into place programs that are of direct benefit to the business community. It's a model for business-government cooperation."

It was the IMC's executive director, Robert VanDine, a U.S. Naval Academy alumnus who shifted to plant management after five years as a Navy officer, who suggested the consortium idea to PMF's Alsted about two years ago. VanDine had seen it in action in Europe, where consortiums are commonplace—2,500 of Denmark's 7,500 small companies are so organized, for example—and he worked with the local companies in organizing the Pennsylvania group. When the consortium is up and running, VanDine will be a member of its board of directors, along with representatives of the companies taking part.

Taback, of the Midwest Manufacturing Technology Center, says the willingness to try new approaches is an encouraging departure from the recent fashion of slavishly trying to make Japanese manufacturing techniques work in America. Says Taback: "Many more American manufacturers are looking at a smorgasbord of potential tactics, whether they're home-grown, whether they come from Japan or Germany or Italy. More manufacturers are willing to look and listen."

What will emerge on the shop floor, says Taback, is a "rugged, do-it-yourself" American manufacturing style blended with the best of the imported methods. NB

LEGISLATION

# Civil Courts On Trial

*Private groups and government alike seek reform of the slow and costly civil-justice system.*

*By David Warner*


PHOTO: SALAH DOROW

**Its suit for payment** *has been long and costly for Artkraft Strauss Sign Corp., says Tama Starr, president, conferring here with Michael Rodriguez.*

Business owners Tama Starr and Hans Hollander believed their respective civil cases were relatively simple when they initiated them, and both expected quick resolutions. However, they learned that the U.S. civil-justice system is anything but quick.

Both have waited years for their cases to be settled and have spent thousands of dollars in legal fees. And they're not alone. In fact, lengthy civil cases have become the norm throughout the court system in recent years, particularly in federal courts. (See the chart on Page 57.) Those delays are costing businesses millions—and the economy billions—of dollars a year, according to critics of the civil-justice system.

Hollander, president of American Aerospace Co. Inc., a 10-employee marketing firm in Harrison, N.Y., estimates the cost of his 9-year-old suit against the U.S. Department of Commerce at more than $100,000 so far. "It drags on and on and on, and it creates tremendous legal fees for a small company such as we are," he says.

Hollander's company provides marketing-support services for U.S. aerospace and defense companies that exhibit at international air shows. He sued the Commerce Department in 1984 to stop it from competing against him at the biennial Paris Air Show, the biggest of the international air shows. The case, pending in the U.S. District Court for the District of Columbia, has yet to be decided.

Starr, president of Artkraft Strauss Sign Corp., in New York, says her troubles started in April 1987 when she sued a Philadelphia outdoor-advertising firm for costs incurred on a job for the firm. The ad company had hired Artkraft in early 1986 to erect a sign on property near the Lincoln Tunnel in New York City. Artkraft was paid $40,000 upfront for the nearly $120,000 job, but the landlord had never given permission to the ad firm for use of the property, and the project could not be completed.

Artkraft sued the ad company to collect costs incurred up to the time the job was halted.

In March 1992, nearly five years after the suit was filed, the Philadelphia Court of Common Pleas, Civil Division, issued a ruling in the case, awarding Artkraft $7,500. The court figured $47,500 in "hard" costs to Artkraft, of which it had already been paid $40,000.

However, the company lost all of its estimated $50,000 in administrative, or "soft," costs related to the job, such as design work on the sign as well as costs for renting a crane to erect the sign—workers were ready to install the sign when the landlord halted the job—and for hauling away the 100-foot sign pole. The company has also spent more than $50,000 in legal fees as the case has dragged through the court system.

"This whole adventure is getting close to $100,000," says Starr. "It would have been cheaper for me to give back the $40,000 and get a release from the deal" to put up the sign. But she hadn't figured that her "simple case" would take five years to reach at least a tentative conclusion. (One of the parties in the case is

appealing the Common Pleas decision to the Pennsylvania Superior Court.)

Starr—whose company was started by her grandfather in 1897 and has put up most of the signs in Times Square, including the famous smoking-camel billboard for Camel cigarettes—says that "there was a stage . . . at which all the issues could have been resolved by common sense. But there were several parties [to the suit], and they were all able to hide behind the delays and complexities that the [civil-justice] system afforded."

The slow pace of the civil-justice system and the high costs of litigation are attributable largely to the sheer number of civil suits—more than 19 million were filed in 1991, according to state and federal court statistics—and to the current court procedural system as well as the seemingly endless legal wranglings that appear to accompany every case.

The average civil case in a state court takes nearly 14 months to reach some conclusion, says the National Center for State Courts, in Williamsburg, Va. Cases in federal courts typically take seven to 11 months from filing to disposition.

And the costs to the economy are indeed staggering. The Rand Institute for Civil Justice, in Santa Monica, Calif., estimates that tort litigation alone cost the economy $29 billion to $36 billion in 1985—the latest year for which figures are available.

Such delays and high costs have prompted efforts in recent years to reform the operations of America's civil-justice system. One significant effort, begun in 1990 and now entering a new stage, relates to the Civil Justice Reform Act, which established a mechanism for developing reform measures for the federal courts.

Under the act, which Congress passed in 1990, civil-justice advisory groups, consisting of defendants' and plaintiffs' lawyers, corporate counsels, and consumer and public-interest groups, were set up to craft and test reforms at the 94 federal district courts.

The groups are now submitting their reform plans to the U.S. Judicial Conference, the administrative arm of the federal courts, which is expected to make recommendations for a uniform set of federal reforms in 1995.

Under the Bush administration, the executive branch Council on Competitiveness, chaired by Vice President Dan Quayle, recommended a number of civil-justice reforms. An executive order from the president to federal agencies' legal staffs in 1991 implemented some of them, such as mandating that government lawyers disclose pertinent information to all parties in a case and that they notify all parties of the intent to file suit.

Although some progress on reform of the civil-justice system has been made since 1990, virtually everyone involved with the legal system agrees that such efforts have a long way to go. That's why business and consumer groups, the American Bar Association (ABA), and many judges are again looking at ways to make the civil-justice system operate more quickly and more effectively and to cut costs for its users.

**Civil Cases More Than Three Years Old In U.S. District Courts**

| Year | Number Of Cases |
|---|---|
| 1984 | 15,646 |
| 1985 | 16,726 |
| 1986 | 19,252 |
| 1987 | 19,782 |
| 1988 | 21,487 |
| 1989 | 22,391 |
| 1990 | 25,207 |

SOURCE: FEDERAL COURT MANAGEMENT STATISTICS

CHART: HANS A. BAUM

Reform of the civil-justice system was a top priority of business people who attended the regional policy meetings of the U.S. Chamber of Commerce last fall, says Tyler Wilson, an administrative law attorney with the business federation. The Chamber recently hosted a two-day conference on civil-justice reform efforts.

The Clinton administration too is eager for reforms. Attorney General Janet Reno has said reform of the civil-justice system will be a top priority during her tenure, and she has expressed her intention to set up an office within the U.S. Justice Department to focus on the issue.

On Capitol Hill, Sens. Charles Grassley, R-Iowa, and Dennis DeConcini, D-Ariz., introduced legislation earlier this year to reform the system. Their bill would, among other things, require the losing party in a suit to pay the winner's legal fees; allow parties to ask for pretrial judgments; and require a claimant to transmit a list of claims to any defendant 30 days prior to filing a civil suit. The lawmakers want to "provide greater access to civil justice by reducing the costs and delays."

Given the attention the issue is receiving from all branches of the government and from lawyers, business organizations, and consumer groups, the outlook for reform of the civil-justice system appears favorable.

Among the proposals now being contemplated by various groups, including the American Bar Association (ABA), are ones to reform the discovery phase of civil suits, the pretrial part of the process where the parties seek information relevant to their cases.

In most cases, says Robert Sayler, a partner with the Washington, D.C., law firm of Covington & Burling, discovery takes too long and costs too much money for all parties to a suit. Sayler is also chairman-elect of the ABA's litigation section.

There have been suggestions to limit the time period for discovery, to limit the number of things that can be "discovered," and to *require* parties to identify information "likely to bear on" a case.

Other reform suggestions include creating financial incentives for reaching settlements before trial, imposing penalties for filing frivolous suits, and requiring greater use of alternative dispute-resolution procedures, such as allowing arbitrators or retired judges to hear grievances.

A controversial reform proposed by several groups and included in the Grassley-DeConcini bill is the "loser pays" rule, which would require the loser of a suit to pay the legal fees of the winner. This proposal, advocates argue, would curtail nonmeritorious cases.

Case management is another area under review. Reformers want judges to become more involved in cases and to do so early in the process, to set firm trial dates, to increase authority over the qualifications of expert witnesses, and to dismiss all or part of a case before trial when warranted.

"We all know that more cases can be gotten out of the system in the first place by doing a lot of smart things before the cases can be filed," Sayler says. He cites an Illinois initiative that says anyone suing on grounds of medical malpractice must first obtain a certificate from a doctor on the validity of the claim.

Other issues related to reform of the civil system include limiting punitive damages, those million-dollar awards handed out for "pain and suffering"; establishing uniform standards for product-liability cases; and protecting volunteer organizations from liability.

And what if there is no reform of the civil system? What if it remains fraught with time-consuming, costly delays?

Says Sayler, "At some point, [businesses] run the risk of not really having available to them the court system to resolve matters where they urgently *do* need the courts." ■

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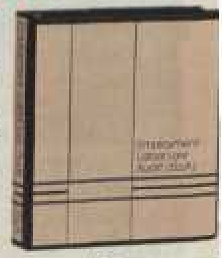

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FINANCE

# Good Advice For Hard Times

*You can pull your company out of a financial nosedive, but survival depends on getting good advice before it's too late.*

*By Steven B. Kaufman*

In June 1991, Gene Manno, the president and chief executive of Arix Corp., a small Silicon Valley computer manufacturer, was contemplating filing for bankruptcy—a decision he found impossible to avoid. The company's chief customer had dramatically cut orders, and Arix was on the verge of completing seven consecutive quarters of red ink. The firm had already laid off most of its work force and begun vacating buildings.

Manno did proceed with bankruptcy, but in an innovative way that ultimately allowed the Sunnyvale, Calif., company to buck the odds and survive. Manno turned to Brooks & Raub, a Palo Alto, Calif., law firm that specializes in prepackaged bankruptcies, and together they developed a debt-reduction plan while formally spending only 45 days in bankruptcy court. Essentially, creditors agreed to swap Arix debt for Arix stock.

Relying on a prepackaged bankruptcy significantly sped up the normal bankruptcy route by laying much of a bankruptcy's foundation—such as assembling a committee of creditors and negotiating with them—outside of the court arena. "If I had gone the traditional bankruptcy route, Arix would have died, and I would have been known for taking a company into bankruptcy, rather than out of bankruptcy," Manno says. "At least I have proven that I can manage a company through very tough times and make it survive."


"**Stick with the work** *you know best," says Nancy Smerz, president of Air Comfort Corp., which regained its focus.*

Manno's experience helps paint an encouraging picture against the backdrop of soaring business failures nationwide. According to Dun & Bradstreet Corp., 96,857 businesses failed in the U.S. in 1992—a record, up from 88,140 in 1991. The outlook for 1993 shows little sign of improvement.

Joseph Duncan, D&B's chief economist, says the failure rate typically stays high well after the end of a recession, largely because of a lag between the failure of big businesses and the ripple effect on smaller businesses. The most recent recession ended officially in the spring of 1991, but the recovery so far has been less than robust.

A separate D&B statistic that tracks the bill-paying performance of 1 million U.S. firms also suggests more trouble ahead. (The index measures whether firms are paying their bills more promptly or less promptly; a healthy reading of zero means that most companies are paying their bills within 31 days.)

In the fourth quarter of 1992, the index stood at minus 5.0, an improvement from the recession low of minus 10.2 a year earlier. But the smallest firms—those with fewer than 20 employees—aren't faring nearly as well as the average. According to D&B, their reading was minus 7.5 in the fourth quarter of 1992. And preliminary data from the first quarter of 1993 indicate that the payment index figures have deteriorated, not improved.

D&B Vice President David Kresge says bill-paying performance isn't likely to improve much soon because the big companies on which many small companies depend aren't experiencing much of a sales increase. As a result, small companies may find that the only way they can preserve cash is by paying their suppliers more slowly. "Small businesses are still facing a long, painful period," he says. "The number of small-business failures will remain high for at least another year."

But, like Manno's company, troubled companies can often manage their debt if they face up to their problems before it's too late. A key to solving such problems, say business-crisis consultants, is to avoid denial.

"Many entrepreneurs have tremendous egos," says Bud Bergeron, president of Bentley Banks & Cross, an Irvine, Calif., debt-management firm. "They start business with the attitude that they can't fail. They just don't want to admit failure and look for help."

Says Charles Boynton, a principal at Bibeault & Associates, a San Francisco crisis-management firm: "Many businesses stumble onto a slippery slide and then begin to fall down. They say, 'My God, something must be done.' But they procrastinate, and eventually it becomes too late. Denial can have an almost catatonic effect throughout an organization."

Another reason business owners delay seeking help is because they believe that their sales will improve as the economy improves, says Susan Sutton, a bankruptcy attorney and turnaround specialist in the San Jose, Calif., office of Gibson, Dunn & Crutcher. "If they can just hold on long enough, they figure, the economy

*Steven B. Kaufman is a free-lance writer in San Jose, Calif.*

will turn around. If they bet right, fine. But if they bet wrong, the results are disastrous."

Once businesses decide to address their problems, they can seek the help of reputable debt-negotiation companies, crisis-management firms, or, like Manno, bankruptcy attorneys who favor informal workouts or relatively speedy, "prepackaged" bankruptcies.

In the case of very small businesses with relatively simple problems, the tab for some of these alternatives can be as low as $2,000. The potential rewards: Their companies are salvaged surprisingly often, creditors are paid something, at least some employees keep their jobs, and owners and top managers become imbued with a new sense of optimism.

For a Washington, D.C., auto-parts store, turning to a crisis-management firm was its answer. When the store's revenues began to plummet last summer, it blindly reacted by doubling its radio advertising. The store, which declines to be identified, didn't even bother to find out which stations appealed to the demographics it sought. "The owner was wasting his money," recalls Tom Thompson, the crisis-management consultant who stepped in to help. "And the worse things got, the more he spent."

At Thompson's urging, the store trimmed its advertising and focused on hard-core cost cutting that included laying off 40 percent of its employees (it wouldn't disclose the number). He also helped the owner renegotiate his lease at far more favorable terms. Now the store is breaking even and rebuilding its business by selling more of its wares directly to service stations.

A turnaround has also occurred at Air Comfort Corp., a Broadview, Ill., heating, ventilation, and air-conditioning contractor that got into trouble after a new executive pushed the company to pursue bigger and more expensive—but also much riskier—installation jobs. As a result, the $10 million company racked up a half-dozen jobs with cost overruns totaling nearly $1 million. On other projects, the company wasn't paid at all. With the help of a crisis consultant, President Nancy Smerz fired the executive, laid off 25 employees, and refocused the company on its original business.

Today, Air Comfort's sales are rebounding, and the company is back in the black. And Smerz says she has learned a valuable lesson: "It's definitely best to stick with the work you know best and the customers you know well."

Debt-management consultants are also proving to be good negotiators on behalf of those with credit problems. Bob Nance, owner of Bob's Tire, a Red Bluff, Calif., tire store and brake-repair shop, last year got help from one such firm—Huntington Beach, Calif.-based Arbitronix, Inc.—in reducing a $54,000 bill to $27,000. Nance had amassed that bill to buy animal-feed grain to give away to customers during a promotional campaign. That sparked more business, but not enough to cover the grain costs.

"Before I hired Arbitronix, I would say the odds were 100-to-1 that my business would not survive," Nance says. "Now I would say my odds of survival are almost 100 percent. When a stranger represents you in a debt problem, it helps to show that you really don't have the ability to pay what you owe in full."

Clearly, seeking expert help early is the key to survival once a company falls on hard economic times. Bibeault & Associates' Boynton says it's imperative that businesses face up to the problem early, no matter how painful that process may initially be. "If they confront their problems quickly and seek help," he says, "people can save their businesses nine times out of 10." NB

PHOTO: ©ROBERT HOLMGREN

**A "prepackaged" bankruptcy** *plan enabled Ariz Corp. to get back on its feet quickly; otherwise, the firm would have died, says Gene Manno, president.*

*To order reprints of this article, see Page 71.*

## To Avert Bankruptcy

The following suggestions are drawn from various experts' recommendations on ways to keep a firm from going bankrupt.

Generally, owners should avoid getting bogged down in day-to-day activities. Pay close attention to what competitors are doing, and ask customers what they like and don't like about your operation.

If sales are slowing, don't let your salespeople automatically talk you into lowering prices. This may not generate more business, and salespeople may be coming to you only because you're the point of "least resistance." In a sluggish economy, salespeople often find it easier to persuade management to offer better deals than to convince customers there is genuine value in what you're selling.

Plan ahead, with heavy employee input, and have a contingency plan in case things turn out worse than expected.

Regularly collect solid financial data. If inventories start rising or long delays begin cropping up in accounts receivable, pay close attention. It may be a sign of trouble, and it's best to address it before it evolves into a serious debt problem.

Until it's crystal clear that the economy is stronger, be wary of the creditworthiness of prospective new customers. If you're not, you may put on your books a company in precarious straits.

If debt becomes a problem, don't deny it. Seek outside help quickly. This often spells the difference between survival and collapse. Three good sources of outside help are reputable debt-negotiation companies, crisis-management firms, and attorneys who specialize in informal workouts and "prepackaged" bankruptcies. They all speed formal Chapter 11 bankruptcies and bolster the odds of survival.

Consider also free counseling from the U.S. Small Business Administration's Service Corps of Retired Executives.

# Family Business

*Who's up and who's down; tips for nonfamily managers; separate views on distributing assets.*

OBSERVATIONS

## When You're "One-Up" In The Family Firm

*By Sharon Nelton*

PHOTO: T. MICHAEL KEZA

Since time began, we've pondered the difficulties of relationships between parents and offspring and, more recently, the difficulties between parents and children in family businesses.

A new book by psychologists Peter Wylie and Mardy Grothe adds a useful new insight—at least for me—as to why business founders and their successor children struggle so with their relationships. It is because the parent is in the "one-up" position, and the child is "one-down." In other words, the parent, or boss, has more power.

The book is *Can This Partnership* Be Saved? Improving (or Salvaging) Your Key Business Relationships* (Upstart, $19.95). The asterisk in the title refers to executive teams in family businesses, closely held companies, and other organizations.

From two decades of experience in consulting with top-level management teams, Wylie and Grothe have made two basic observations about those who are one-up:

The first is that you may be the biggest "people problem" on your executive team. The reason, they say, is that many bosses have never read a book on how to manage or have never had formal training in how to be a boss, "not even attendance at a two-hour seminar." Most bosses become bosses for reasons other than a demonstrated ability to manage people. In family businesses, for example, many a fellow has become top boss because he was the firstborn son of the founder.

Power itself is an even bigger factor, according to these authors. "Power means your boss can treat you and your team members in ways you can't treat your boss." For example, a boss can ask you to do tasks that you think are unreasonable and foolish, but you can't ask him to do the same.

When relationship problems occur, all parties involved have a responsibility to change in order to make improvements, Wylie and Grothe say, which in turn leads to the next point:

Their second observation is that when you're one-up, you're in the best position to make things better, but you may be the least motivated to do so. The authors say that whatever the relationship, "the folks with the least power are the most interested in getting help to improve the relationship."

They also point out that most bosses have their attention "focused upward and outward," not downward toward employees. A business owner, for example, may be more concerned about expanding the business, "keeping important customers satisfied, and finding new markets for the company's products."

If you're one-up, why should you be concerned about improving your "people" skills? Because you're causing problems and frustrations for your employees—both family and nonfamily. Because your executive team insulates you from candid feedback and important information, telling you what you *want* to hear, not what you *need* to hear. Because when they're unhappy, valuable employees begin to look for other jobs, and when that happens, you'll have a harder time keeping those important customers satisfied and finding new markets.

Wylie and Grothe offer a far deeper analysis of team relationships than this space permits, and they outline steps for improving those relationships.

Examining yourself and your work relationships is well worth the effort—whether you're one-up or one-down. ■

PLANNING

## Suggestions For Nonfamily Managers

*By John L. Ward and Craig E. Aronoff*

"My friends think I'm nuts to take this job as vice president at a family business," says a corporate executive looking for a new challenge. "They keep reminding me that blood is more persuasive than competence."

Like that executive, more and more expatriates of large firms are seeking opportunities with family-owned businesses. They sense a greater security and perhaps a more pleasing quality of work life. Many of these same folks scorned such opportunities not long ago.

Life in big businesses has certainly changed over the past few years. Downsizing and stepped-up competition are only two of the many factors that have increased the pressures and lack of security of corporate life. But the climate in family-owned businesses has remained relatively stable and inviting. We offer the following counsel to managers seeking employment in family firms:

**Beware of requesting a contract.** Many family-business owners are affronted by contract requests that may seem normal or wise to others. They feel their loyalty and integrity are being questioned before the candidate has proven his or her worth. We do recommend, though, discussing a job descrip-

PHOTO: T. MICHAEL KEZA

*John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.*

tion thoroughly. Clear expectations are always useful.

**Don't expect equity.** Periodically, business owners flirt with the idea of sharing equity—and, ill advisedly, hint at it. Sometimes they think it will tie managers more closely to the business and to the business's performance. Sometimes business owners consider sharing equity just because it seems to feel right. But almost always, regardless of what they say or hint, they usually choose against sharing real stock.

**Don't get too close.** Many who seek to work in family firms would prefer, for their own needs, to get emotionally very close to the owning family. They think that it's part of the family-business culture. But a business-owning family will usually be inconsistent in that regard, and that can disappoint expectations.

We recommend that nonfamily managers presume the relationship to be friendly, yes, but above all, professional.

**Avoid secrets.** Sometimes one family member having a difference with another will look for sympathy or support from a nonfamily manager. While this confidence can make the nonfamily manager feel more important, we think it's almost always bad practice.

Nonfamily managers would be wiser to make sure that they encourage family members to talk to one another directly and that they avoid being caught in the middle.

**Don't take personal responsibility for what you can't control.** In an effort to be helpful, a manager may attempt to solve a problem when family members are disagreeing—or where the business owner isn't yet in concurrence. Unless there is agreement, their positions can change, unpredictably, at any moment. That's very frustrating. We suggest the manager in these situations make a recommendation to the owners and let them then take the responsibility.

**Move for fast impact.** We find business owners to be very optimistic about their new key hires. Sometimes there is almost a sense of awe that one so professionally qualified would work for them.

The beginning of your tenure is the perfect time to make your feelings clear, make an impact, or precipitate a change. We urge you to overcome the manager's natural first impulse to be compliant and reserved.

**Stress "team."** Sometimes an executive feels more secure if he or she is the most favored nonfamily manager. Business owners tend to manage and meet with people one at a time, shielding

ILLUSTRATION: DAVID CHEN

themselves from the power of consensus. This approach fosters individuals seeking the status of "No. 1 adviser." Almost always, this will backfire. We encourage nonfamily managers to promote executive team meetings to share information and alternatives.

**Help the successor grow.** Business owners are often too critical of their heirs, their family-business successors. To reinforce their concerns, they will seek such confirmation from older, key managers. Next, the business owner may "quote" the nonfamily manager to make a point to the successor.

Nonfamily managers serve the company best when they are optimistic and positive about a successor's ability to develop and when they aid in that development. If there are doubts, encourage testing of the successor by an organizational psychologist to identify needs and programs for improvement.

The addition of excellent nonfamily managers to the family business is a pivotal step. Depending on nonfamily managers is essential to long-term growth. It's also vital to the company's culture and creativity.

But when business owners begin to recruit and incorporate new outsiders in key positions in the business, it can be an understandably clumsy and frightening experience for them. They feel vulnerable and unsure of themselves. They feel they are taking a step that lessens their personal control. We encourage nonfamily managers to be patient and understanding during this stressful transition.

New nonfamily managers face a critical decision. They can work themselves into the family culture—seeking to be close to the family and falling into the patterns of past practice. Or they can, by their conduct, help lead the business to the next level of professionalism. ■

## MARK YOUR CALENDAR

### Sept. 22, Hartford, Conn.

"Succession Planning," a full-day seminar on critical issues in succession planning for small business, is sponsored by the U.S. Small Business Administration and Connecticut Mutual Life Insurance Co. To be repeated in October in Baltimore, Chicago, Dallas, Salt Lake City, and San Diego. For more information, call 1-800-367-2865.

### Sept. 9, Dallas

"How To Manage and Maximize the Family in Family Business" is a seminar presented by Baylor University's North Texas Family Business Forum. Contact Nancy Upton at (817) 755-2265.

### Sept. 21, Hatfield, Pa.

"Communicating Values Across Generations in Business Families" is the theme of an all-day meeting featuring *Nation's Business* columnist Craig E. Aronoff. Contact Henry Landes at the Delaware Valley Family Business Center; 1-800-296-3832.

### Sept. 23, San Antonio

"Managing Family Relationships in the Family Firm" is an all-day seminar conducted by Sam Lane, a nationally known family-business authority, for the South Texas Family Business Forum. Contact Nancy Upton at (817) 755-2265.

### Oct. 6-9, New York City

"Family Business: A Generation Comes of Age" is the theme of the Family Firm Institute's annual conference. Sessions will focus on current political and economic transformations that will dramatically affect family business worldwide. Contact Lenny Fogel at the institute; (617) 738-1591.

### How To Get Listed

*This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business,* Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

# Putting A Lock On The Future

Anthony, 62, and Lewis, 73, have been model business partners and friends for years. But now they're caught in a conflict that threatens their relationship.

What began as a casual real-estate partnership between the two has grown into a multimillion-dollar real-estate portfolio with properties throughout their state. They have started talking about retirement, about doing fewer deals, and about possibly passing assets on to their children.

Lewis wants to test his children's readiness to handle assets and is thinking of putting one of the debt-free properties they own jointly into a trust for the benefit of his three daughters and Anthony's two sons. Lewis, who grew up during the Depression, wants the trust drafted so that the property can never be mortgaged or sold. He wants his oldest daughter and Anthony's older son to be co-trustees.

ILLUSTRATION: DAVID CHEN

Anthony believes the trust idea is a good one, but he doesn't agree to the restrictive provisions that Lewis wants. "The property may need to be renovated or even sold in the future," he told Lewis recently. "We shouldn't tie the trustees' hands."

Lewis insisted the provisions should be included, and he angrily left the room.

Anthony knows some planning needs to be done—he has no buy-sell agreements with Lewis. However, he doesn't want to agree to the restrictive trust provisions. He doesn't want to risk his 30-year friendship with Lewis, either. What can he do?

# A Trust May Not Help

Anthony should first consider whether a trust is the appropriate vehicle to "test the children's readiness."

A trust can create complications. For example, beneficiaries have rights to either the income during the term of the trust or the remainder at the end. As trustees, the oldest children may find themselves in the center of a conflict between income beneficiaries wanting more income and remainder beneficiaries wanting more appreciation. Protracted litigation could occur.

Anthony should suggest using a limited partnership to achieve the goals in question. A limited partnership would allow each of the children to have the entire interest in the partnership (and not just an income interest with a contingent right to the remainder). The oldest child in each family can act jointly as the managing general partners.

PHOTO: ©ALAN DOROW

*John D. Dadakis, a partner in the individual-client and family-business department of the international law firm of Rogers & Wells, based in New York.*

To address Lewis' wishes, the agreement creating the limited partnership could restrict when the property could be mortgaged or sold. The agreement could be amended by the managing partners or a majority of the children in the light of current business circumstances.

The limited partnership could also establish a buy-sell agreement so that if any one of the children decided to sell his or her interest, there would be a mechanism for the others to purchase it.

By introducing discussion on the possibility of a limited partnership, Anthony would also be able to encourage Lewis to focus on the other assets that they own together. It is vital that they establish a vehicle other than a trust to handle the disposition of the entire real-estate portfolio. Otherwise, there could be major problems if all the children become partial owners of the properties.

Through a limited partnership, the management arrangements can be set up before either Anthony or Lewis dies.

# Make Good Use Of Conflict

Conflict is good. In fact, it brings out what perhaps has been left unsaid for too long. However, the key to Anthony and Lewis' dilemma is to resolve this conflict while keeping their relationship intact.

Obviously, Anthony and Lewis have a basic respect for each other. This foundation will serve them well in getting through the present crisis.

Since Anthony thinks the trust is basically a good idea, the only real conflict here is Lewis' insistence that the property never be mortgaged or sold. Feelings are perhaps getting in the way of reason.

PHOTO: ©JOEL SALCIDO—BLACK STAR

*Carmen Ghiselli, executive director of the Family Business forum at the University of Texas at El Paso.*

Lewis' position constitutes "ruling from the grave." What if, 25 years from now, business conditions make selling the property fabulously profitable? Lewis needs to be encouraged to consider the facts logically and to examine his unspoken reasons for wanting to place restrictions on the trust.

Here are some approaches that Anthony might take:

1. **Consult an outside expert.** A family-business consultant skilled in conflict resolution would be ideal.

2. **Work with Lewis to set clear goals.** Such goals should include determining whether their partnership is to continue as a family business.

3. **Acknowledge feelings.** Anthony and Lewis should acknowledge each other's feelings, but given the situation, Anthony may need to take the first step.

4. **Explore values.** Lewis' values concerning the future may be different from Anthony's, and they need to be considered so that the real issues can be addressed. Perhaps Lewis' experiences during the Depression are influencing his current thinking.

By dealing with these concerns, Anthony and Lewis can resolve their present conflict and, in doing so, make their long-term relationship all the richer. NB

**This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Mike Cohn, president of The Cohn Financial Group, Inc., in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Brookline, Mass.**

# Direct Line

*Experts answer our readers' questions about starting and running their businesses.*

*By Meg Whittemore*

LODGING

## Rest For The Wheel-Weary

I have access to a small parcel of acreage in Oregon. Where can I go for information on starting a mobile-home park or a recreational-vehicle park?
*B.M., Medford, Ore.*

To explore opening a mobile-home park, start with the zoning board in the town where you have the acreage. Because a mobile-home park involves the permanent placement of dwellings, considerations about water lines, sewage disposal, and other utilities and services must be taken into account. You will need permits to establish lots. Check also with any mobile-home park in the area to learn about the day-to-day operations of such an enterprise.

For information on opening a recreational-vehicle (RV) park, contact the National Association of RV Parks & Campgrounds. The organization offers national standards for the industry along with a free list of publications on subjects such as business start-up, zoning restrictions, state associations, and recreational-vehicle park development.

You can reach the association at 11307 Sunset Hills Road, Suite B7, Reston, Va. 22090. ■

ILLUSTRATIONS: MARTHA VAUGHAN

ENTREPRENEURSHIP

## Hot Spots On The Horizon

I am in college, but I know that I will want to run my own business eventually. What will be some of the hot businesses in the next decade?
*J.R., Scottsdale, Ariz.*

In *The Do-It-Yourself Business Book* (John Wiley & Sons), author Gustav Berle says that future business opportunities will be in products and services that are designed for the aging baby-boom population.

Berle, a University of Baltimore business and entrepreneurship teacher and former director of marketing and communications at the Service Corps of Retired Executives, also says any business working to improve the ecology should do well, as should firms offering frozen desserts (especially low-fat ones), religious merchandise, rafts, car customizing and detailing, and home-delivery service for food and automotive services.

Berle's paperback book is available for $14.95 plus shipping and handling from the publisher at 1-800-225-5945, extension 2497.

Consider also the resources of the Association of Collegiate Entrepreneurs, founded in 1983 at Wichita State University, in Kansas. The organization has about 5,000 members—mainly college students running their own businesses—and offers a variety of seminars and programs for novice as well as would-be entrepreneurs.

Its free publications list is available by contacting the association at 122 E. 42nd St., New York, N.Y. 10168. ■

RETAILING

## A Sporting Chance

I need information on the steps involved in starting a neighborhood sports store.
*A.M., Somerset, N.J.*

Opening a retail store requires careful planning and market research. Questions you should consider include:

What are the customer traffic patterns? Do customers shop during their lunch hours? Could you reasonably expect a brisk weekend trade?

How close would your nearest competitor be? Would your location have easy access for deliveries and customer parking? Would any zoning restrictions apply to your kind of business? (Some historic districts frown on certain kinds of businesses.)

Talk with other business owners in the area you are investigating. Ask them if they have any concerns about the business district.

Try to find out the company that occupied the space you are considering so you can determine why the firm that had been there departed.


The National Sporting Goods Association offers a *Store Planning Workbook for Sporting Goods Retailers*, a do-it-yourself design workbook on topics such as lighting and fixtures, floor coverings, floor space, ceilings, wall finishes, and investment tax credits. The cost is $80 plus $3.50 for shipping and handling.

The association also offers a $95 start-up kit, which includes information on suppliers, a financial-planning guide, and a three-month subscription to *Buying Guide*, the association's monthly magazine.

Additional information is available through the association's seminars on topics such as store design, merchandising, inventory control, cash-flow analysis, and tax planning.

For ordering information, write or call the National Sporting Goods Association, 1699 Wall St., Mount Prospect, Ill. 60056-9968; (708) 439-4000.

The book *Sport Marketing* (Human Kinetics Publishers), by Bernard Mullin, contains information on how to market your product; it costs $42 plus $3.75 shipping and handling, from the publisher, at (217) 351-5076. ■

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Writers will be identified only by initials and city. Questions may be edited for space. ■

TRAVEL SERVICES

## Tours Of Duty

I am interested in becoming a tour operator. Are there any books on the subject?
*S.C., Birmingham, Ala.*

The *Discover America Package Tour Handbook*, published by the Travel Industry Association of America, is a how-to manual that outlines the basics of tour packaging.

The handbook includes a glossary and a list of public-service and corporate contacts. It can be purchased from the association at Two Lafayette Center, 1133 21st St., N.W., Washington, D.C. 20036; (202) 293-1433. The list price is $35.


*How You Can Travel Free as a Group Tour Organizer* (Pilot Books), by Beverly Boe and Phil Philcox, covers getting started, tour promotion and packaging techniques, and treating travel as a business.

Listed in the book are tour operators, U.S. government tourist offices, and foreign-government tourist-information offices.

The book is priced at $3.95 plus $1 for shipping. To order, call the publisher at (516) 422-2225.

FITNESS

## Stretching The Unstretched

I own and operate a small exercise and aerobics business. Most of my clients are sedentary white-collar professionals. Can you recommend a book on stretching exercises that I could include in their workouts?
*J.J., Fort Myers, Fla.*

The book *Stretching* (Shelter Publications, Inc.), by Bob Anderson, is packed with a wide range of stretching routines. Topics include information on when, how, and why stretching is important, a guide for teachers, and a bibliography for more information.

There is a special section for people who sit all day.

The book costs $12 plus $3 shipping and handling (checks or money orders only). To order, contact the publisher at P.O. Box 279, Bolinas, Calif. 94924; (415) 868-0280.

BUSINESS ORGANIZATION

## Home-Based, Incorporated

Do you have suggestions on how I can incorporate my home-based business?
*C.K., Albany, N.Y.*

For an overview of the process, read *The Small Business Incorporation Kit* (John Wiley & Sons), by Robert L. Davidson III. The paperback contains information on the advantages and disadvantages of incorporation, planning, developing articles and bylaws, and tax implications. The book is $12.95 and is available at most bookstores.

Corporate Agents, Inc., a Wilmington, Del., firm, offers services that will help any business incorporate in any state—and does it by phone. The company's fees range from $115 for an incorporation in Delaware to $1,014 for one in California. The typical fee, according to the company, is $200 to $300. For additional information, call 1-800-877-4224. NB

# To Your Health

*Managing well includes managing your own health; here is advice to help you do that better.*

*By Phyllis M. Barrier*

## A Guide To Dining In

How many times have you promised yourself that you'll start eating better? How many times have you said that you'll start eating more meals at home?

Let's face it: No matter how carefully we order, we tend to consume more calories and fat when we eat out. Many times we eat meals out not because we want to but because there's nothing at home we can put on the table quickly.

How many times have you said that you'll start bringing your lunch to work? Many times we don't pack a lunch because we didn't buy anything to pack, or we didn't allow time to pull it together.

We're all concerned about what we eat, but work, family, and other demands on our time sometimes make healthful eating difficult. But it *is* possible to eat in a healthful and time-efficient way.

The first step is planning. At work, you use daily planners, calendars, and to-do lists to organize your time; you should do the same before you go food shopping. You'll more than make up the time spent and eat better too.

On a calendar note the obligations you have during the upcoming week: tickets to a concert on Tuesday; exercise class on Monday and Wednesday; business lunches and dinners; weekend activities.

This first step shows you when you won't be eating dinners at home, days you won't need to pack a lunch, and evenings when you'll be getting home late and need something quick and easy to eat—but not a high-fat carry-out dinner.

Next, start your menu planning. Go through your calendar and write on it what you want to eat, for breakfast, lunch, and dinner. As you do this, make your food shopping list. (There are printed lists available that can make this go faster.)

For breakfasts, let's say you plan to eat cold cereal with bananas, bagels with light cream cheese, oatmeal with toast, eggs and English muffins, and pancakes on the weekend. Since you have English muffins in the freezer and oatmeal in the pantry, your shopping list might include skim or 1 percent milk, orange juice, bread, four bagels, light cream cheese, and bananas.

PHOTO: ©MICHAEL A. KELLER—THE STOCK MARKET

**Eating a healthful** *diet requires planning menus ahead.*

Let's say you have two business lunches scheduled, and you always eat with a friend one day a week; that means you'll want to plan lunch for two days. Your food shopping list might include tuna packed in water or sliced turkey, two pieces of fruit, nonfat fruited yogurt, or anything else you like for lunch. If you have a microwave oven at work, your list could include frozen dinners (low-fat ones, of course) and hard rolls, plus fruit and yogurt.

As for dinners, for the two nights you have exercise class, you'll probably want something fast and easy—but healthful. Maybe a baked potato, microwaved, served with cottage cheese and salsa (try it, you'll like it!), or a homemade pita pizza (bottled low-fat spaghetti or pizza sauce smeared on a pita, topped with 1/2 to 3/4 ounce of low-fat mozzarella, red or green pepper, slices of garlic, and herbs, and heated until the cheese has brown spots just like a real pizza).

You can also plan to eat leftovers (or double a recipe and freeze) for nights when you know you'll be getting home later than usual. If you're getting home late because of food shopping, pick up a salad from the supermarket's salad bar for dinner. If your business lunch is going to be your main meal one day, perhaps you can plan on a sandwich for dinner. Whatever you decide, write your menu plans on the calendar, and then add the foods you'll need to your shopping list.

You'll also want to include some healthful snacks on that shopping list, like pretzels, low-fat microwave popcorn, the new baked (not fried) corn chips, graham crackers, fat-free cookies, and frozen low-fat yogurt. We all need a snack occasionally and also something to serve if someone drops by unexpectedly—but the snacks you keep in the house should be healthful ones. When you have a craving for gourmet ice cream, eat one scoop out, at an ice cream store. You'll do a lot less damage than if you have a quart of it in your freezer.

When you're writing in your calendar, it's a good idea to pencil your menus in. You may get an unexpected invitation for dinner on Friday, so you can erase and move that meal to the next week.

To take your menu planning a step further, you may want to keep an inventory of things you put in the freezer. Keeping a running inventory, with the date each item was purchased, will help with menu planning and save you money. (How many times have you found a piece of meat suffering from freezer burn after being in the freezer too long?)

When you are at the food market, it's a good idea to stick with your food shopping list. The broccoli, spinach, green beans, and zucchini may be beautiful—and certainly good for you—but don't buy more vegetables than you have on your list. If you only need three vegetables for the next 10 days, the extras that you buy won't be beautiful when you need vegetables again.

You do need to be flexible, though. Perhaps you planned to buy skinless, boneless chicken breasts, but when you got to the store, the turkey cutlets were cheaper. Of course, you'd want to switch.

Menu planning is also a good way to incorporate new food items and recipes into your repertoire. You may see a recipe in the newspaper you want to try. If you write down the ingredients when you're doing your menu planning, you're all set. One of the best ways to get the 40-plus nutrients you need for good health is to get lots of variety in your diet. NB

*Phyllis M. Barrier, a registered dietitian, is a health professional in the Washington, D.C., area.*

# For Your Tax File

*How to keep taxes from trapping you.*

*By Albert B. Ellentuck*

MEDICAL DEDUCTIONS

## Capital Expenditures On Your Doctor's Orders

What's the tax connection between medical expenses and home improvements? If you or someone in your immediate family is disabled or suffers from a chronic medical condition, you may be able to take a medical-expense deduction for part of what you spend for home improvements necessary for your medical care or your family member's.

Generally, if such a home improvement qualifies, it is deductible to the extent that it doesn't increase the value of your property. For example, expenditures for widening doors and hallways, removing barriers, or adding ramps and railings to accommodate a person in a wheelchair usually would not increase the house's value, and thus those costs should be deductible in full.

If a home improvement qualifies as a medical expense but does increase the value of a home, a portion may still be deductible to the extent it exceeds any increase in the value of the residence. For example, if you install an elevator on your doctor's advice, at a cost of $10,000, and it increases the value of your residence by $3,000, then $7,000 of the cost should be deductible as a medical expense.

PHOTO: KAL MESSERSCHMIDT—FOLIO, INC.

**Under doctor's orders** *to swim for your health? Costs of building your own pool could be deductible—if it isn't lavish.*

The cost of having a swimming pool installed—even if it has been recommended by your doctor—is, as you might have guessed, generally harder to deduct. Such an improvement must be necessary, not just convenient. One factor to consider is the availability of less-expensive alternatives that are reasonably accessible. If there is a neighborhood pool that the individual can get to easily, the IRS is not likely to allow a deduction for the cost of constructing a pool.

Also, any costs over and above those necessary to produce an adequate pool may not be considered deductible for medical care. If the pool is luxurious, most of its cost probably would be disallowed as unnecessary. On the other hand, the cost of a specially designed exercise pool that does not lend itself to recreational swimming may be fully deductible.

Remember to get a doctor's written recommendation for the improvement stating that the expenditure is directly related to the medical care of the patient and why. Also get a written opinion from a competent real-estate appraiser specifying how much, if any, and why the value of the home has increased.

And keep careful records of not only the costs of the improvement but also the annual operating and maintenance expenses; these too are deductible as medical expenses. ■

ESTATE PLANNING

## A Break For Giving Stock In A Family Business

As a result of a recent Internal Revenue Service ruling, giving stock in a family business as a gift has become a more attractive estate-planning move. The ruling allows the owner to give company stock to family members at a discounted rate for tax purposes.

Generally, if the owner of a business makes gifts of corporate stock to a family member, the amount of the gift would be the fair market value of those shares. The value of the shares would be a pro rata portion of the entire value of the company.

For example, suppose Mr. Taylor owns 60 percent of the XYZ Co. and gives his entire interest to his son. If the XYZ Co. is worth $2 million, Taylor's gift is valued at 60 percent, or $1.2 million.

If an individual owns 5 percent of the stock in a business and transfers that stock as a gift, it is treated as a minority interest, and a minority discount may be used in evaluating it. In the past, minority discounts have been allowed for a substantial amount of a stock's value.

A minority interest in the company would be valued at less than the percentage of the company's total value. If Taylor gives his son only 5 percent and keeps 55 percent, the value of the stock given to his son should be subject to a minority discount, and it would be worth less than its $100,000 pro rata value.

For some time, the IRS has taken the position that no minority discount will be allowed with respect to transfers of stock among family members where control existed in the family unit at the time of the transfer. The IRS's thinking has been that a family will always act as a unit, and therefore all family-owned stock is controlling stock. This theory disregards the realities and the legal rights of the owners.

The IRS had previously indicated, however, that it would allow a minority discount if there is evidence of family discord or other factors indicating that the family would not act as a unit in controlling the corporation. This exception is a narrow one and is not very helpful.

If Taylor and his son get along, the IRS would have valued Taylor's gift of 5 percent of the shares at $100,000 and not allowed a minority discount.

Now the IRS has issued a ruling reversing itself and agreeing that despite family control, a minority discount would be allowed. Thus, Taylor's gift to his son would now clearly have the benefit of a minority discount. NB

*Tax lawyer Albert B. Ellentuck is a partner in the Washington law firm of Colton and Boykin. Readers should see tax and legal advisers on specific cases.*

# It's Your Money

*A monthly survey of strategies and suggestions to help you with your personal finances.*

*By Peter Weaver*

TRAVEL

## The Summer Squeeze On Frequent-Flier Reservations

If you've planned your vacation or a business-and-pleasure trip for late summer, you might be frustrated by the fact that the flight you want has no more seats available for those using frequent-flier mileage awards.

Airlines routinely budget only a small number of award seats during the summer travel crunch. So if you're going to London, Paris, Rome, Frankfurt, or perhaps Disney World in Florida, you may have to develop an alternative plan.

"See if you can find a nearby gateway airport to where you want to go," says Ed Perkins, editor of *Consumer Reports Travel Letter*. For example, Perkins points out that Manchester, England, and Glasgow, Scotland, could be two interesting and entertaining gateways to London.

How about Paris or Frankfurt? "Try flying in through Belgium or Amsterdam," says Randy Petersen, editor of *Inside Flyer Magazine*. If you're heading to Rome or Paris, you might try flying to Nice, France.

From most potential gateways, you can rent a car, take a bus, or take one of Europe's famous trains to the big-name cities. And each of those smaller entry points has its own history, tourist sights, and off-the-beaten-trail restaurants and hotels.

Some additional tricks for getting where you want to go include using other exit cities to Europe, such as Newark or Philadelphia, instead of the usually jammed Kennedy Airport in New York.

If you're flying domestically, try Disneyland if you can't get to Disney World when you want to, says Perkins. Flights to Los Angeles or San Diego might be open while flights to Orlando might not be.

"And there are all sorts of regional destinations in the United States that can make for wonderful vacations," says Perkins. He includes such spots as northern Michigan; Wisconsin's Door County; Lake of the Ozarks, in Missouri; central Pennsylvania and the state's Pocono Mountains; and North Carolina.

None of these places requires booking flights that are traditionally sold-out for award travelers. You can get more information on what's available by writing or phoning the individual states' tourist information services.

Warning: If your free award tickets are lost or stolen while you're traveling, they are not replaceable. You might consider purchasing trip cancellation and interruption insurance, which covers this contingency. For more information, call Travel Guard International at 1-800-826-1300.

PHOTO: SPINS AMRAHAMO—UNIPHOTO

**If you were planning** *to use a frequent-flier award to check out the Piazza Navona in Rome this summer, you may be too late.*

*Peter Weaver is a Washington-based columnist on personal finance.*

## Airlines Restrict In-Flight Use Of Computers And Other Devices

You're buckled in for a business flight, and you're about to try out your new investment—a laptop computer. The flight attendant approaches and says, "Sorry, you have to stow the computer until the captain says it's OK to use it."

Unusual scenario? Not at all. Most airlines now have a policy on whether you can use computers and other electronic business machines in the air and, if they are permitted, when they can be used.

"It's up to the airlines, even individual pilots, to make the determination as to what electronic gear can be used on which aircraft," says Fraser Jones, a spokesman for the Federal Aviation Administration (FAA).

Chris Chiames, a spokesman for the Air Transport Association (ATA), says, "Our industry has petitioned the FAA for new rules covering portable electronic devices, and [the FAA] denied the petition."

There's worry that such devices may interfere with aircraft communications and navigation equipment. An airliner's climb for the first 10,000 feet of altitude and its descent through the final 10,000 feet for landing "are the crucial times," says ATA's Chiames. So you might have to keep your laptop stowed during those periods of the flight.

While the ATA and the FAA haggle over who is responsible for what and when, travelers are advised to check ahead of time to find out what business machines they can use and under what circumstances.

What about transmitting data from your laptop or from your portable fax machine? You need a modem and a phone connection. The Federal Communications Commission bans the use of cellular phones on aircraft. But many planes have their own, safety-certified public phones for passenger use. The use of modem-connected machines on these phones may be permitted by some airlines and not by others. Voice recorders for electronic note taking are OK, according to the FAA's Jones.

LITIGATION

## User-Friendly Courts For Small Claims

If you're an irate consumer or a small-business owner who has been stiffed by a customer who won't pay, you might consider having your day in court—and serving as your own lawyer.

Most states have small-claims courts that are user-friendly, and most allow plaintiffs and defendants to appear without an attorney. You just state your case in a brief, orderly fashion and present your evidence. Don't try to act like a lawyer. "Perry Mason" behavior can work against you with a small-claims judge.

Attorney Ralph Warner, president of Nolo Press, a firm that publishes consumer and small-business law books, says that the "first thing you have to ask yourself is how much time will you have to spend to get the results you want."

You usually can get a fair settlement with a well-crafted, businesslike "demand letter," Warner says. He shows you how to draft such a letter in his book, *Everybody's Guide to Small Claims Court*. "If the letter doesn't work," he says, "you can make good use of it in small-claims court as an accepted form of evidence the judge can read."

Indeed, evidence is the key to small claims. You need copies of letters, bills, invoices, and contracts, and you may need photographs of damaged goods or other items that may make your case.

Warner advises you keep your case argument to four minutes or so and practice your statement and introduction of evidence. "Judges can't stand long-winded rambling and will cut you short," says Warner, who suggests sitting in on some small-claims cases to learn from their procedures.

Warner's book contains step-by-step instructions on how to handle your own case. The book is available in bookstores and libraries, or it can be ordered for delivery by sending $19.94 to Nolo Press, 950 Parker St., Berkeley, Calif. 94710; 1-800-992-6656.

REAL ESTATE

## Home Warranties: Protecting Your Investment

When you buy a previously owned home that's getting on in years, it's hard to know if any major system, such as the heater or the central air conditioner, might be on the brink of collapse. So should you buy a one-year warranty that covers this vital equipment and other things, such as the plumbing, the electrical system, the water heater, and the kitchen appliances?

"Statistics show that not much goes wrong during the first year," says Agnes Davis, president of American Realty Group, in Arlington, Va., adding that it's "sometimes better to self-insure." But she says it might indeed be worth it if you're buying an old house and it's hard to determine the age and condition of the operating systems and equipment.

"These warranties are really for both the buyer and the seller," says John M. Kinker, a Lake St. Louis, Mo., home-warranty contractor who is president of the National Home Warranty Association. The nonprofit trade group covers more than 90 percent of the nation's home-warranty contractors and is based at its president's business headquarters.

"The buyer gets protection against having to pay for some major repairs," says Kinker, "the seller gets a good sales tool, and, in today's litigious market, the warranty tends to discourage lawsuits against the real-estate agent and seller."

Home warranties may cover not only major systems and equipment but also items such as trash compactors, garage-door openers, swimming-pool equipment, and hot tubs.

A home-warranty service contract (it's not insurance) costs from $350 to $450 a year, depending on where you live and what contractor you choose. Deductibles range from $35 to $200 per service call. Most real-estate agents know where contracts can be purchased. For more information, call the National Home Warranty Association at 1-800-325-8144.

Warranties for new homes are another matter. Many builders offer HOW (homeowner warranty) coverage, which is insurance-backed protection, to buyers for up to 10 years. Coverage includes the cost of repair or replacement, if necessary, for specific structural items. Heating and air-conditioning systems, water heaters,

PHOTO: SEAN FORD CONNOLLY—PICTURE GROUP

**Many builders** *offer new-home warranties, but you* can *get them for existing homes.*

and appliances are usually covered by their own manufacturers' warranties.

Many builders offer HOW coverage, which is backed by the National Association of Home Builders, at no charge to buyers. Other building companies may have their own insured warranties.

## Home Appraisals: Reverse Sticker Shock

With the surge in mortgage refinancing continuing unabated, some homeowners are being stunned by sticker shock in reverse when they get the lender's appraised-value report.

After the real-estate bubble burst in the late 1980s, appraisers were accused of overstating home values. "Now they may be going too far in the other direction," says Paul Havemann, president of HSH, of Butler, N.J., a publisher of mortgage-based financial figures. He calls it the "equity trap."

If you get stuck in this trap, with an appraisal that doesn't show enough equity in your home to cover the amount of the loan, there are things you can do.

Douglas Brown, president-elect of the Appraisal Institute, an association of professional appraisers, notes that "the law says the lender must give you a copy of the appraisal if you ask for it." He adds, "Make sure that they give you the full report, not just the government-approved cover page." You need all the extra notes that show what the appraiser believes are attractions and drawbacks.

You also want to see which recent home sales were used as "comparables" for your home's value estimate. "It's quite possible," Brown says, "that a nearby home sold for a higher price after the appraiser worked on your report."

Or the appraiser may not be sufficiently familiar with your neighborhood and may have misjudged "comparables" in an adjacent area of lower-quality homes.

It's also possible that a home that was used in the comparables column was a "distress" sale. Someone may have lost a job, or there may have been a divorce requiring a quick transaction.

Armed with new facts and figures, you should call the appraiser and ask for an appointment to go over the report, item by item.

The lender may increase the equity figure for your home so you can qualify for the loan. If the appraiser won't budge and you feel you have been wronged, you can ask the lender to send out another appraiser to provide a second opinion.

You'll have to pay another appraisal fee, but if you get the loan at the interest rate you want, it could be worth it. NB

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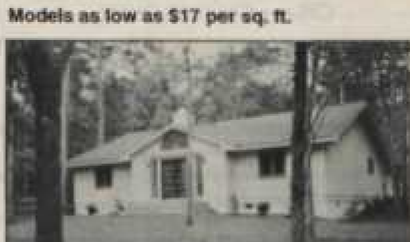

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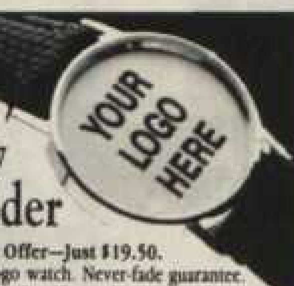


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# Where I Stand

# ON THE MINIMUM WAGE

**Results of this poll on proposals to increase the federal minimum wage will be provided to the administration and congressional leaders.**

**Send the attached, postage-paid response card. Or circle your answers below and fax this page to (202) 463-5636.**

## 1

**The federal minimum wage, now $4.25 an hour, would go to $6 or $6.75 under different bills in Congress. Congress should:**

1. Raise it to $6
2. Raise it to $6.75
3. Raise it to a level under $6
4. Leave it at $4.25

## 2

**Pending legislation also calls for an indexing system that would guarantee annual automatic cost-of-living increases. Do you:**

1. Support indexing
2. Oppose indexing
3. No opinion

## 3

**How would an increase into the $6-to-$6.75 range affect employment in your company?**

1. Halt hiring
2. Slow down hiring
3. Require layoffs
4. No impact

## 4

**Some economists argue that mandated minimum wages deny entry-level jobs to young workers. Do you:**

1. Agree
2. Disagree
3. No opinion

## 5

**Opponents of a minimum-wage increase argue that it would push up wages generally, thereby hurting U.S. competitiveness. Do you:**

1. Agree
2. Disagree
3. No opinion

## 6

**If you think that the minimum wage has the adverse economic effects cited in Questions 4 and 5, do you favor:**

1. Reducing the present amount
2. Eliminating the minimum wage
3. No opinion

***Send Your Response Today!***

POLL RESULTS

# Readers' Views On OSHA Reform

If Congress moves forward with legislation to reform the Occupational Safety and Health Act, it should exempt small businesses from further inspection and record-keeping requirements, according to an overwhelming majority of *Nation's Business* readers.

In the Where I Stand readers' poll in June, 82 percent of the respondents said small firms should be exempt from expansion of the inspection and record-keeping provisions of the nation's federal workplace safety and health law, administered by the Occupational Safety and Health Administration (OSHA). Just 13 percent said there should be no exemption.

In addition, federal law should not require detailed safety plans from all companies, said 69 percent of the respondents; 24 percent said all firms should have such plans, and 7 percent were undecided.

Sixty percent said the law should not mandate a role for workers in formulating a safety plan.

When asked whether expanding the categories of criminal behavior and increasing the criminal penalties under the OSHA law would result in greater job safety, 73 percent of the respondents said no, 16 percent said yes, and 11 percent were undecided.

The safety and health act, which Congress is considering expanding, does not protect the legitimate interests of both employers and employees, according to 70 percent of the respondents; 20 percent said the law does protect both parties' interests. Of those who said the OSHA law is biased, 79 percent said the bias favors workers, and 6 percent said the act is biased in favor of employers.

### OSHA REFORM

| | | |
|---|---|---|
| **Does the Occupational Safety and Health Act as it now stands protect the legitimate interests of both employers and employees?** | 1. Yes<br>2. No<br>3. Undecided | 20%<br>70%<br>10% |
| **If you think the law is biased, does this bias favor employers or employees?** | 1. Employers<br>2. Employees<br>3. Undecided | 6%<br>79%<br>15% |
| **Would expanding the categories of criminal behavior and increasing the criminal penalties provided under the present law result in greater job safety?** | 1. Yes<br>2. No<br>3. Undecided | 16%<br>73%<br>11% |
| **Should there be a small-business exemption from further expansion of OSHA inspections and record-keeping laws?** | 1. Yes<br>2. No<br>3. Undecided | 82%<br>13%<br>5% |
| **Should federal law mandate a role for workers in the formulation of company safety plans?** | 1. Yes<br>2. No<br>3. Undecided | 31%<br>60%<br>9% |
| **Should federal law require all companies to have a detailed safety plan?** | 1. Yes<br>2. No<br>3. Undecided | 24%<br>69%<br>7% |

# Congressional Alert

*A report on key legislative issues with suggestions for contacting Congress about them.*
*Addresses: U.S. Senate, Washington, D.C. 20510; U.S. House of Representatives, Washington, D.C. 20515.*

## Help Shape Mining Reform

Congress will soon decide on the future of hard-rock mining on public lands—an activity that generates about $1.2 billion in annual revenue and employs 120,000 people.

ILLUSTRATIONS: RICHARD GAGE

Many business people in the industry agree that the law needs some changes, but a debate is raging over whether the General Mining Law, which permits prospecting and mining of minerals such as gold, silver, and copper on public lands, should be reformed or repealed.

Rep. Nick Joe Rahall II, D-W.Va., has introduced a bill that would repeal the mining law and replace it with a measure that, according to the U.S. Chamber of Commerce, would cripple the U.S. mining industry. The legislation, H.R. 322, would:

- Impose an 8 percent royalty fee on hard-rock mining, which the Chamber believes would be drastic compared with no fee currently.
- Establish federal reclamation standards to supersede state laws. The Chamber says federal standards are unnecessary because state laws already require that the land be returned to the condition it was in before mining.
- Fuel the litigation crisis by making it easier for groups to file suit to prevent mining companies from developing their legal claims, and by giving federal land managers the ability to deny arbitrarily miners' access to certain public lands.

The House is expected to consider the Rahall bill soon. The Senate bill, S. 775, introduced by Sen. Larry E. Craig, R-Idaho, would impose a 2 percent royalty on the net value of extracted minerals, provide for payment of fair market value for the surface land, and assure reclamation of mines in accordance with state and local laws. This bill passed the Senate unanimously on May 25.

Contact your representatives, and urge them to vote against H.R. 322 and to support reasonable reform that would allow business access to federal lands. ■

## Free-Trade Pact Would Spur Economy

Business action or inaction over the next several weeks will likely determine the fate of the North American Free Trade Agreement (NAFTA), according to business lobbyists on the issue.

If implemented, NAFTA would permanently bind the U.S., Canadian, and Mexican markets into a single commercial entity stretching from the Yukon to the Yucatan. For small U.S. companies, this would mean much easier and cost-effective access to the fast-growing Mexican market and would level the trade playing field by eventually eliminating Mexican tariffs and customs user fees.

Although the U.S. Chamber of Commerce and other business organizations have been extolling the commercial benefits of NAFTA since last fall, the agreement's fate remains uncertain, largely because of continuing opposition from some environmental and labor groups and a recent court decision. A federal judge ruled that the Clinton administration must prepare a study of the agreement's potential environmental impact.

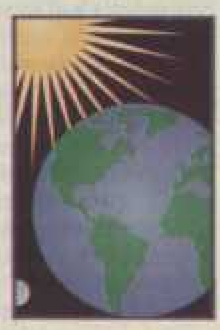
Environmental and union opponents continue asserting that the agreement will degrade U.S. worker rights and labor standards and will harm the environment. The administration has been negotiating side agreements with the Canadians and Mexicans to allay these concerns, but the negotiations have dragged on.

Nonetheless, the Chamber is confident that the side agreements and court hurdles can be overcome shortly and that the agreement can gain congressional approval if business people express strong support for NAFTA during Congress' summer recess, scheduled to begin Aug. 6.

Contact your representative and senators in their district offices, and tell them how you and your employees would benefit from the additional business opportunities that free trade throughout the hemisphere would afford. ■

## Concerns For Firms On Climate Treaty

Business and industry could suffer as a result of an aggressive Clinton administration campaign to stabilize greenhouse gas emissions.



In a revision of past policy, the administration is taking steps to use the National Action Plan (NAP), crafted by the signatories of the 1992 Earth Summit agreement in Rio de Janeiro, to reduce greenhouse gas emissions to 1990 levels by 2000.

As signed in 1992 by President Bush and leaders of other nations, the plan lacked specific targets and timetables, which the administration is working to include. The plan simply identified types of programs and measures being taken to address climate-change issues.

In its efforts to revise the plan, the administration is conducting an interagency evaluation of the NAP to ensure that the U.S. meets its commitments under the treaty. President Clinton's goal is for the United States to have a new NAP on the table for the next United Nations Intergovernmental Negotiating Committee meeting in mid-August.

The U.S. Chamber of Commerce believes that the steps being taken to revise the treaty are unwarranted in light of scientific evidence. From an economic perspective, revising the treaty as the president intends would be unachievable without causing significant financial and regulatory hardships for business and industry, it says.

However, the Chamber supports review and implementation of a NAP based on sound science and economic and social-cost analyses, and it encourages multilateral actions among signatories to meet the climate-change treaty's goals.

Contact your senators and representative to urge them to support a cost-effective, flexible, scientifically based climate-change plan that would not place additional tax, spending, and regulatory burdens on business. NB

# Editorial

## Why Entitlements Must Be Curbed

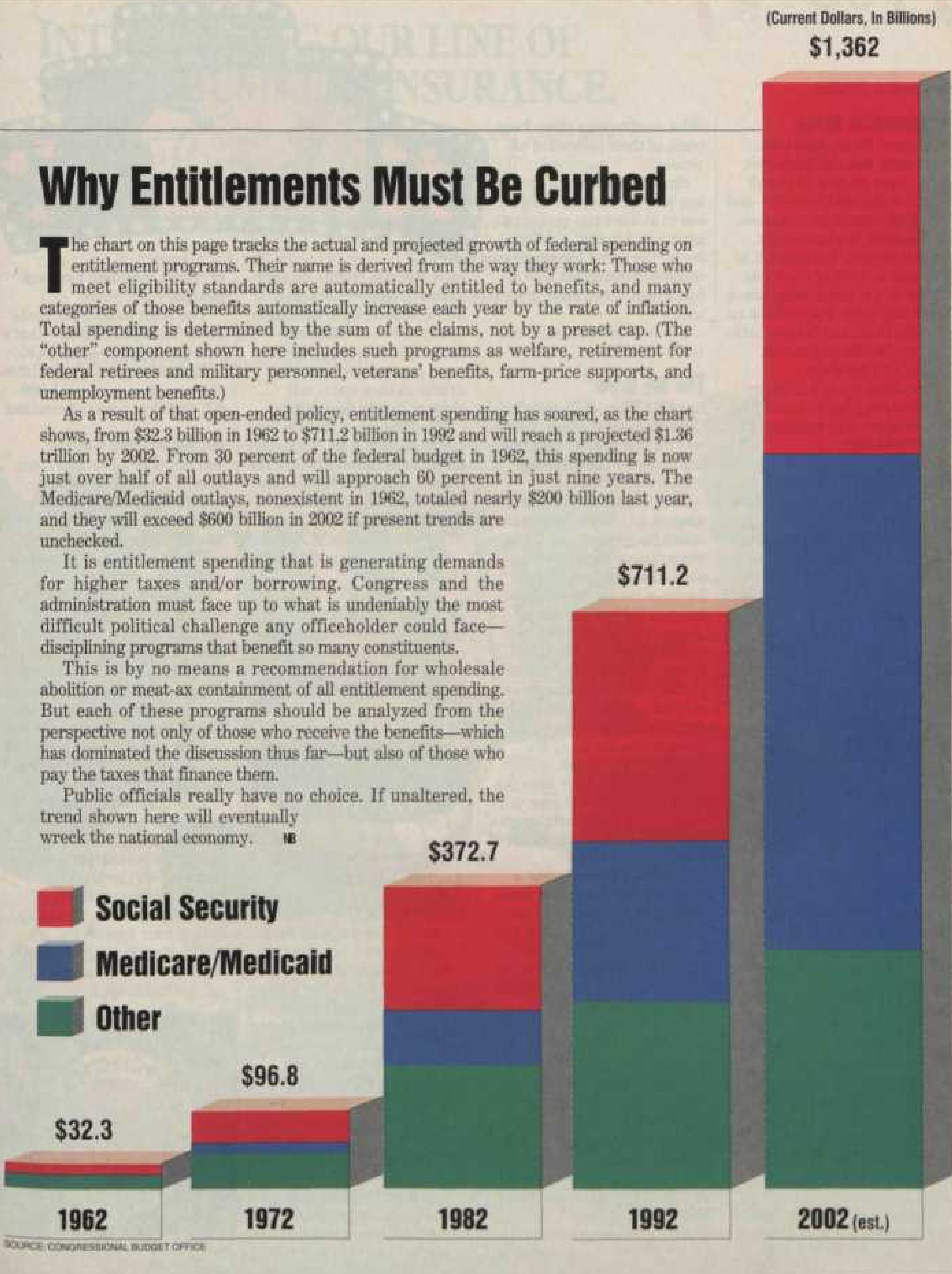
The chart on this page tracks the actual and projected growth of federal spending on entitlement programs. Their name is derived from the way they work: Those who meet eligibility standards are automatically entitled to benefits, and many categories of those benefits automatically increase each year by the rate of inflation. Total spending is determined by the sum of the claims, not by a preset cap. (The "other" component shown here includes such programs as welfare, retirement for federal retirees and military personnel, veterans' benefits, farm-price supports, and unemployment benefits.)

As a result of that open-ended policy, entitlement spending has soared, as the chart shows, from $32.3 billion in 1962 to $711.2 billion in 1992 and will reach a projected $1.36 trillion by 2002. From 30 percent of the federal budget in 1962, this spending is now just over half of all outlays and will approach 60 percent in just nine years. The Medicare/Medicaid outlays, nonexistent in 1962, totaled nearly $200 billion last year, and they will exceed $600 billion in 2002 if present trends are unchecked.

It is entitlement spending that is generating demands for higher taxes and/or borrowing. Congress and the administration must face up to what is undeniably the most difficult political challenge any officeholder could face—disciplining programs that benefit so many constituents.

This is by no means a recommendation for wholesale abolition or meat-ax containment of all entitlement spending. But each of these programs should be analyzed from the perspective not only of those who receive the benefits—which has dominated the discussion thus far—but also of those who pay the taxes that finance them.

Public officials really have no choice. If unaltered, the trend shown here will eventually wreck the national economy. NB




SOURCE: CONGRESSIONAL BUDGET OFFICE

# Free-Spirited Enterprise


*By Janet L. Willen*

## Expandable Office

Frequent fliers, take note: **Airbrain Inc.,** of Rochester, N.Y., says its new SkyDesk doubles the usable work—and reading—space on airplanes.

SkyDesk is a lightweight plastic lectern. You attach it to the seat in front of you by its fabric strips, and it hangs above your tray table. Place a book on the SkyDesk, and the tray table will be free for paperwork, lunch, or a beverage.

SkyDesk costs $15.95, including shipping and handling.

For more information, call 1-800-836-0820.

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SmartStart, an employee relocation program, is available to any business, no matter how few people are being moved.

The program provides employees with marketing advice in selling their home, help through the closing processes, and assistance in finding a home in the new location. The program also offers mortgage prequalification to help the employees know what they can afford in their new location.

Employees may also obtain a Prudential Bank & Trust debit card to help them keep track of their relocation expenses.

SmartStart is not a brokerage service. It refers employees to at least two real-estate agents and is paid a referral fee by the agent the employee chooses. SmartStart also offers a discounted moving service.

For more information, call 1-800-356-6834.

## The Big Draw

**Imprint Plus,** of Vancouver, Canada, has a glueless, pinless way for you to keep your name tag in place. The company does it with magnets.

The company's two-part magnet and brass fastener is called Badge-a-tisers. Using conventional name tags in plastic sleeves, you slip the Badge-a-tiser's flat magnet into the back of the plastic sleeve. The brass fastener then is placed on the inside of a lapel, for example, and the plastic sleeve containing the magnet is placed on the outside; the two parts are held in place by the action of the magnet.

The manufacturer says the magnet and the fastener will adhere to each other through a lapel, a pocket, or the fabric of a dress.

Imprint Plus will print a company name or other message on the magnet and can cut it to fit any size name tag.

The costs vary with sizes, colors, and quantities. The approximate cost without printing is $2 each.

For more information, call 1-800-563-2464.

## The Singles Scene

Another kind of attraction may take place soon at a movie theater near you. For now, it's only available to singles in Kansas City and New Orleans at the **AMC Theatres'** Mingles Nights.

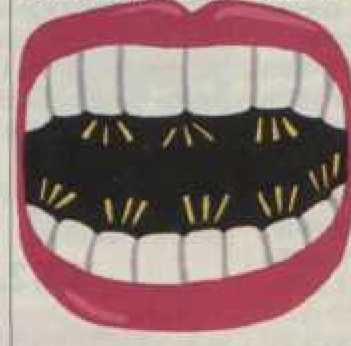
AMC, a nationwide chain, calls Mingles Nights its alternative to singles bars. For $5.75, minglers get admission to any movie at the multiscreen theater, hors d'oeuvres, popcorn, as many soft drinks as they want, and chances to win door prizes.

Mingling takes place in food courts outside AMC's theaters for at least an hour before the movies. Mingles Nights take place at specified theaters in Kansas City on Sundays and in New Orleans on Mondays.

For more information, call (816) 474-5116.

## Designer Brushes

A new angle on toothbrushes comes from **Radius Corp.,** of



Kutztown, Pa. The toothbrush is curved, the company says, to make correct brushing automatic. Designed by two architects, the brush has a large handle that minimizes the amount of pressure applied to teeth and gums. The brush's head is oversized and has more than 6,500 ultrafine nylon bristles.

The neck of the brush is at a 45-degree angle from the handle to enable cleaning of the gums.

Right-handed and left-handed models are available. The brush comes in a variety of colors, including two-tone models.

The adult toothbrush costs $9.95. The Kidz models—that's how they spell it—cost $4.95.

Radius brushes are available at many stores, or call 1-800-626-6223 for more information.

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U.S. CHAMBER OF COMMERCE

# The Business Advocate

SUPPLEMENT TO Nation's Business AUGUST 1993

The U.S. Chamber's congressional liaisons, Lonnie Taylor (left) and Christine Russell, discuss budget bill strategy with Rep. James A. Hayes of Louisiana, one of several Democratic subcommittee chairmen who voted against the House bill.

# U.S. Chamber Works To Kill Budget Bill

*See Next Page*

Join The Action Network

See Page 93

**Budget Debate**

# U.S. Chamber Fights To Kill High-Tax Budget

The U.S. Chamber of Commerce says that President Clinton's budget remains top-heavy with tax increases and should be defeated.

Chamber President Richard L. Lesher warned that the final version of the plan about to be voted on in Congress would curb the economy, not the deficit.

While the measure is still being drafted in a House-Senate conference committee, it already contains enough unacceptable provisions to warrant its rejection by Congress, he said.

Lesher called for "a complete re-engineering" of the budget to achieve genuine deficit reduction without endangering the nation's tentative economic expansion.

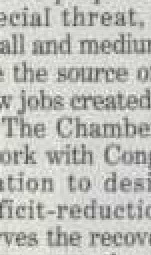
The proposed tax increases pose a special threat, Lesher said, "to the small and medium-sized businesses that are the source of more than half of the new jobs created in recent years."

The Chamber president offered to "work with Congress and the administration to design a truly effective deficit-reduction package that preserves the recovery and enhances long-term economic growth."

U.S. Chamber President Richard L. Lesher, right, discusses the budget bill with Sen. Pete V. Domenici, R-N.M., a member of the House-Senate conference committee on the measure.

Joining Lesher in announcing Chamber opposition to the budget bill was Ivan W. Gorr, chairman of the organization's board of directors, who said the call for a fresh start on the budget is not so much a criticism of either party as it is an indictment of a budget process "in need of fundamental reform."

"We should take this opportunity to initiate a serious dialogue on how to make the budget process responsive to the nation's long-term economic needs," the Chamber chairman said. He suggested that a pending proposal for an independent commission on spending reduction could be one way to provide fiscal discipline. By proposing spending



## Chamber Standards For Deficit Cuts

***The U.S. Chamber's board of directors adopted these principles as critical to a nonpartisan and successful approach to real deficit reduction:***

**1.** A deficit-reduction package should be predicated upon a ratio of at least $2 in net spending cuts for each $1 of net revenue increases.

**2.** Deficit-reduction efforts should address and contain the growth in entitlement spending through effective controls at the federal level that do not rely on shifting the cost of these programs to the states or to the private sector.

**3.** As Congress weighs the financing options for deficit reduction—both revenue increases and specific spending cuts—serious consideration must be given to the subsequent financing of health-care reform. Although deriving from different policy goals, these funding demands will have a combined effect on the economy and should not be addressed in isolation.

reductions that Congress would have to accept or reject in toto, the bipartisan panel would make it easier for lawmakers to avoid political repercussions of cuts that affected their constituents.

A similar approach to closing defense installations has proved successful, Gore noted.

*(A detailed report on that proposal appears on this page.)*

The U.S. Chamber's call for rejection of the conference bill on the administration budget was preceded by its opposition to the House and Senate versions of the fiscal plan, which were narrowly approved by the two houses of Congress in late May and late June, respectively.

The conference committee negotiating a unified bill must reconcile differences in the separate measures. But identical provisions in both bills are not generally subject to revision, which makes it virtually impossible for the conference to produce a bill that does not contain tax and spending policies that the Chamber opposes.

Chamber economists expect that the bill emerging from the conference committee will include a broad-based energy tax, a transportation-fuels tax, only marginal tax incentives to spur business investment, and a ratio of only 1-to-1 on spending cuts and tax increases, all of which would conflict with the business organization's vision of the fiscal policies needed to spur economic growth.

It is already assumed that the bill submitted to both houses for final approval will also call for raising the top effective individual income tax rate to 39.6 percent and the corporate tax rate to 35 percent.

The Chamber unsuccessfully sought to shield accumulated earnings of Subchapter S corporations from the higher tax rates and expanded that position to support a Senate amendment to prevent increases in tax rates on retained income of those corporations, partnerships, and sole proprietorships. Congressional failure to recognize small-business concerns inherent in those proposals was a factor in the Chamber's opposition to the fiscal plan.

In addition, the conference report is expected to remove the ceiling from the amount of wages subject to the Medicare tax.

Both houses agreed to the individual, corporate, and Medicare tax provisions in passing their versions of the legislation.

On the spending side, the Chamber says, neither bill offers sufficient prospects for a compromise that would attack the root of the deficit problem—

*Continued on Page 84*

## Solutions

# Chamber Backs Proposed Spending-Cut Commission

A proposal to insulate members of Congress from the political repercussions of spending cuts has been approved by the board of directors of the U.S. Chamber of Commerce.

The authors of the plan, which has been introduced in Congress, are Sen. Connie Mack, R-Fla., Rep. John Kasich, R-Ohio, and Rep. Dan Miller, R-Fla.

Mack outlined the proposal to the Chamber board at its June 9 meeting.

The proposal calls for the creation of a bipartisan Government Spending Reduction Commission, which would identify $65 billion in cuts each year until the deficit is eliminated. Only Social Security would be exempt. Current and former members of Congress could not serve on the panel.

The commission would submit its recommendations to Congress and the president, who would have to accept or reject them as a package.

In notifying Congress of the Chamber's support for the Mack-Kasich-Miller plan or a similar proposal, William T. Archey, Chamber senior vice president for policy and congressional relations, said that a spending-reduction commission could "provide the objectivity and discipline necessary for Congress to rise above special interests."

He said the Chamber "looks forward to working with Congress and the administration to secure this type of legislation."

If the process began in 1995, the budget would be in balance in five years, according to the Congressional Budget Office.

A commission approach to spending reduction would be modeled after the successful Defense Base Closure and Realignment Commission, which was established in 1990 to deal with another difficult fiscal/political problem—legislators' fear of being held responsible at the polls for the loss of military bases within their states or districts.

*"We envision a deficit-reduction panel that would operate similar to the base-closing commission."*

—Sen. Connie Mack

By turning the selection process over to an independent outside panel whose recommendations must be endorsed or rejected in toto, members of Congress gained political cover for decisions adverse to their constituencies. Critics of that approach advanced the same argument being raised against the spending-reduction commission—that such arrangements amount to an abdication of congressional responsibility to an unelected group.

When the Defense Department's proposals for cutting bases were dealt with individually by members of Congress as part of the legislative process, members were under heavy pressures from constituents to fight for facilities important to the local economies.

Now, lawmakers act only on the final package of recommendations and may not propose amendments designed to deal with individual situations in their home areas.

There is general agreement in Washington that the base-closing commission has achieved the long-sought goal of reducing military facilities while minimizing the political impact on members of Congress.

Supporters of a similar approach to all types of federal programs say that it could be equally effective.

■ Budget Debate

# Chamber Fights High-Tax Budget

*Continued from Page 83*

increasingly excessive outlays.

Even before the final bill is produced by the conference committee, Lesher said, it is apparent that it will not meet the principles that the U.S. Chamber board of directors has adopted for genuine deficit reduction.

Those principles are:

■ Two dollars in spending cuts for each dollar of net revenue increase.

■ Entitlement-spending controls that do not involve shifting costs to business or the states.

■ Consideration of the combined economic impact of tax/spending policies developed to reduce the deficit and fund health-care reform.

*(An editorial on entitlements appears on Page 79 of the August issue of* Nation's Business.*)*

While the Chamber board called for a \$2-to-\$1 ratio in the spending cut-tax hike mix, the House bill works out to 82 cents in spending cuts for every \$1 of tax increases, and the Senate bill contains \$1.04 in cuts for each \$1 of new revenue.

Even those relatively low spending cuts are not guaranteed, however.

The House number derives from the congressional technique of lowering the amount of anticipated increases in spending and describing the result as a spending reduction, even if the expenditure level agreed to is higher than the current one.

And the Senate's higher ratio is largely attributable to \$10 billion in additional Medicare cuts, which would require separate legislation revising that program.

Another major flaw in the mix of tax increases and spending cuts is that the former would take effect immediately or within a few months while the latter would be implemented over several years.

***"If we're ever going to control the deficit, the entitlement issue must be addressed."***

**—Sen. John C. Danforth**

In addition, neither the House bill nor the Senate measure offers the entitlement curbs on which the Chamber insists, and the current consideration of tax and spending policies does not include the extent to which the Clinton health-care plan, now expected to be announced in September, would affect government finances or the private sector's ability to absorb additional taxes and insurance costs.

One of the most difficult areas for compromise by the two houses will be energy taxation.

*Continued on Page 95*

■ Senate Vote

The Senate narrowly approved its version of the budget-reconciliation bill 50-49 on June 24, with the deciding vote cast by Vice President Al Gore. The U.S. Chamber opposed the bill. If your senators voted against the legislation, thank them. If they voted for it, tell them you're sorry they voted for a bill so heavily laden with tax increases and without a greater emphasis on spending cuts. The address is U.S. Senate, Washington, D.C. 20510.

### Voted For Bill

ALABAMA
Heflin (D)
ARKANSAS
Bumpers (D)
Pryor (D)
CALIFORNIA
Boxer (D)
Feinstein (D)
COLORADO
Campbell (D)
CONNECTICUT
Dodd (D)
Lieberman (D)
DELAWARE
Biden (D)
FLORIDA
Graham (D)
HAWAII
Akaka (D)
Inouye (D)
ILLINOIS
Moseley-Braun (D)
Simon (D)
IOWA
Harkin (D)
KENTUCKY
Ford (D)
LOUISIANA
Breaux (D)
MAINE
Mitchell (D)
MARYLAND
Mikulski (D)
Sarbanes (D)
MASSACHUSETTS
Kennedy (D)
Kerry, John (D)
MICHIGAN
Levin (D)
Riegle (D)
MINNESOTA
Wellstone (D)
MONTANA
Baucus (D)
NEBRASKA
Exon (D)
Kerrey, Robert (D)
NEVADA
Reid (D)
NEW JERSEY
Bradley (D)
NEW MEXICO
Bingaman (D)
NEW YORK
Moynihan (D)
NORTH DAKOTA
Conrad (D)
Dorgan (D)
OHIO
Glenn (D)
Metzenbaum (D)
OKLAHOMA
Boren (D)
PENNSYLVANIA
Wofford (D)
RHODE ISLAND
Pell (D)
SOUTH CAROLINA
Hollings (D)
SOUTH DAKOTA
Daschle (D)
TENNESSEE
Mathews (D)
Sasser (D)
VERMONT
Leahy (D)
VIRGINIA
Robb (D)
WEST VIRGINIA
Byrd (D)
Rockefeller (D)
WISCONSIN
Feingold (D)
Kohl (D)

### Voted Against Bill

ALABAMA
Shelby (D)
ALASKA
Murkowski (R)
Stevens (R)
ARIZONA
DeConcini (D)
McCain (R)
COLORADO
Brown (R)
DELAWARE
Roth (R)
FLORIDA
Mack (R)
GEORGIA
Nunn (D)
Coverdell (R)
IDAHO
Craig (R)
Kempthorne (R)
INDIANA
Coats (R)
Lugar (R)
IOWA
Grassley (R)
KANSAS
Dole (R)
Kassebaum (R)
KENTUCKY
McConnell (R)
LOUISIANA
Johnston (D)
MAINE
Cohen (R)
MINNESOTA
Durenberger (R)
MISSISSIPPI
Cochran (R)
Lott (R)
MISSOURI
Bond (R)
Danforth (R)
MONTANA
Burns (R)
NEVADA
Bryan (D)
NEW HAMPSHIRE
Gregg (R)
Smith (R)
NEW JERSEY
Lautenberg (D)
NEW MEXICO
Domenici (R)
NEW YORK
D'Amato (R)
NORTH CAROLINA
Faircloth (R)
Helms (R)
OKLAHOMA
Nickles (R)
OREGON
Hatfield (R)
Packwood (R)
RHODE ISLAND
Chafee (R)
SOUTH CAROLINA
Thurmond (R)
SOUTH DAKOTA
Pressler (R)
TEXAS
Gramm (R)
Hutchison (R)
UTAH
Bennett (R)
Hatch (R)
VERMONT
Jeffords (R)
VIRGINIA
Warner (R)
WASHINGTON
Gorton (R)
WYOMING
Simpson (R)
Wallop (R)

### Did Not Vote

PENNSYLVANIA
Specter (R)
WASHINGTON
Murray (D)

■ Taxes And Spending

# House Vote On Fiscal 1994 Budget Bill

The House and Senate passed different versions of budget-reconciliation legislation that contain taxes and spending details of the federal budget for fiscal 1994, which begins Oct. 1.

**Reps. David S. Mann (Ohio), left, Marjorie Margolies-Mezvinsky (Pa.), and Nathan Deal (Ga.) were among the freshman Democrats who resisted pressure from the administration and voted against the House budget-reconciliation bill.**

The House passed its bill in late May, and the Senate approved its measure in late June. A House-Senate conference committee is now developing a single bill based on those two.

The U.S. Chamber of Commerce opposed both measures, noting, among other objections, that the bills relied too heavily on tax hikes and not enough on spending cuts for deficit reduction.

Among the Chamber's specific objections in the House bill was a broad-based energy tax based on the heat content of fuels as measured in British Thermal Units (BTUs). The Chamber said this tax would have a significant negative effect on businesses and the economy generally. *(See details of Senate vote, Page 84.)* The House vote (H.R. 2264) was 219-213.

*Thank your representative if he or she voted against the bill. If your member voted for the bill, tell him or her you're disappointed he or she voted for a bill so heavily dependent on tax hikes.*

## Voted Against Bill

**ALABAMA**
- Bachus, Spencer (R)
- Browder (D)
- Callahan (R)
- Everett (R)

**ALASKA**
- Young, Don (R)

**ARIZONA**
- Coppersmith (D)
- Kolbe (R)
- Kyl (R)
- Stump (R)

**ARKANSAS**
- Dickey (R)
- Hutchinson (R)

**CALIFORNIA**
- Baker, Bill (R)
- Calvert (R)
- Condit (D)
- Cox (R)
- Cunningham (R)
- Doolittle (R)
- Dornan (R)
- Dreier (R)
- Gallegly (R)
- Herger (R)
- Horn (R)
- Huffington (R)
- Hunter (R)
- Kim (R)
- Lehman (D)
- Lewis, Jerry (R)
- McCandless (R)
- McKeon (R)
- Moorhead (R)
- Packard (R)
- Pombo (R)
- Rohrabacher (R)
- Royce (R)
- Thomas, William (R)

**COLORADO**
- Allard (R)
- Hefley (R)
- McInnis (R)
- Schaefer (R)

**CONNECTICUT**
- Franks, Gary (R)
- Johnson, Nancy (R)
- Shays (R)

**DELAWARE**
- Castle (R)

**FLORIDA**
- Bilirakis (R)
- Canady (R)
- Diaz-Balart (R)
- Fowler (R)
- Goss (R)
- Lewis, Tom (R)
- McCollum (R)
- Mica (R)
- Miller, Dan (R)
- Ros-Lehtinen (R)
- Shaw (R)
- Stearns (R)
- Young, Bill (R)

**GEORGIA**
- Collins, Michael (R)
- Deal (D)
- Gingrich (R)
- Kingston (R)
- Linder (R)
- Rowland (D)

**IDAHO**
- Crapo (R)

**ILLINOIS**
- Crane (R)
- Ewing (R)
- Fawell (R)
- Hastert (R)
- Hyde (R)
- Lipinski (D)
- Manzullo (R)
- Michel (R)
- Porter (R)

**INDIANA**
- Burton (R)
- Buyer (R)
- Long (D)
- Myers, John (R)
- Roemer (D)

**IOWA**
- Grandy (R)
- Leach (R)
- Lightfoot (R)
- Nussle (R)

**KANSAS**
- Meyers, Jan (R)
- Roberts (R)

**KENTUCKY**
- Baesler (D)
- Bunning (R)
- Rogers (R)

**LOUISIANA**
- Baker, Richard (R)
- Hayes, James A. (D)
- Livingston (R)
- McCrery (R)

**MAINE**
- Snowe (R)

**MARYLAND**
- Bartlett (R)
- Bentley (R)
- Gilchrest (R)
- Morella (R)

**MASSACHUSETTS**
- Blute (R)
- Torkildsen (R)

**MICHIGAN**
- Camp (R)
- Hoekstra (R)
- Knollenberg (R)
- Smith, Nick (R)
- Upton (R)

**MINNESOTA**
- Grams (R)
- Minge (D)

**MISSISSIPPI**
- Parker (D)
- Taylor, Gene (D)

**MISSOURI**
- Danner (D)
- Emerson (R)
- Hancock (R)
- Skelton (D)
- Talent (R)

**NEBRASKA**
- Barrett, Bill (R)
- Bereuter (R)

**NEVADA**
- Vucanovich (R)

**NEW HAMPSHIRE**
- Swett (D)
- Zeliff (R)

**NEW JERSEY**
- Andrews, Robert (D)
- Franks, Bob (R)
- Gallo (R)
- Klein (D)
- Pallone (D)
- Roukema (R)
- Saxton (R)
- Smith, Christopher (R)
- Zimmer (R)

**NEW MEXICO**
- Schiff (R)
- Skeen (R)

**NEW YORK**
- Boehlert (R)
- Fish (R)
- Gilman (R)
- Houghton (R)
- King (R)
- Lazio (R)
- Levy (R)
- Maloney (D)
- McHugh (R)
- Molinari (R)
- Paxon (R)
- Quinn (R)
- Solomon (R)
- Walsh (R)

**NORTH CAROLINA**
- Ballenger (R)
- Coble (R)
- McMillan (R)
- Taylor, Charles (R)

**OHIO**
- Boehner (R)
- Gillmor (R)
- Hobson (R)
- Hoke (R)
- Kasich (R)
- Mann (D)
- Oxley (R)
- Portman (R)
- Pryce, Deborah (R)
- Regula (R)
- Traficant (D)

**OKLAHOMA**
- English, Glenn (D)
- Inhofe (R)
- Istook (R)

**OREGON**
- Smith, Robert F. (R)

**PENNSYLVANIA**
- Clinger (R)
- Gekas (R)
- Goodling (R)
- Greenwood (R)
- Holden (D)
- Margolies-Mezvinsky (D)
- McDade (R)
- McHale (D)
- Ridge (R)
- Santorum (R)
- Shuster (R)
- Walker (R)
- Weldon (R)

**RHODE ISLAND**
- Machtley (R)

**SOUTH CAROLINA**
- Inglis (R)
- Ravenel (R)
- Spence (R)

**SOUTH DAKOTA**
- Johnson, Tim (D)

*Continued on Page 86*

■ Taxes And Spending

# Close Vote On '94 Budget

*Continued from Page 85*

**TENNESSEE**
Clement (D)
Duncan (R)
Quillen (R)
Sundquist (R)

**TEXAS**
Archer (R)
Armey (R)
Barton (R)
Bonilla (R)
Chapman (D)
Combest (R)
DeLay (R)
Edwards, Chet (D)
Fields, Jack (R)
Geren (D)
Hall, Ralph (D)
Johnson, Sam (R)
Laughlin (D)
Sarpalius (D)
Smith, Lamar (R)
Wilson (D)

**UTAH**
Hansen (R)
Orton (D)

**VIRGINIA**
Bateman (R)
Bliley (R)
Goodlatte (R)
Pickett (D)
Wolf (R)

**WASHINGTON**
Dunn (R)

**WISCONSIN**
Gunderson (R)
Klug (R)
Petri (R)
Roth, Toby (R)
Sensenbrenner (R)

**WYOMING**
Thomas, Craig (R)

## Voted For Bill

**ALABAMA**
Bevill (D)
Cramer (D)
Hilliard (D)

**ARIZONA**
English, Karan (D)
Pastor (D)

**ARKANSAS**
Lambert (D)
Thornton (D)

**CALIFORNIA**
Becerra (D)
Beilenson (D)
Berman (D)
Brown, George (D)
Dellums (D)
Dixon (D)
Dooley (D)
Edwards, Don (D)
Eshoo (D)
Fazio (D)
Filner (D)
Hamburg (D)
Harman (D)
Lantos (D)
Martinez (D)
Matsui (D)
Miller, George (D)
Mineta (D)
Pelosi(D)
Roybal-Allard (D)
Schenk (D)
Stark (D)
Torres (D)
Tucker (D)
Waters (D)
Waxman (D)
Woolsey (D)

**COLORADO**
Schroeder (D)
Skaggs (D)

**CONNECTICUT**
DeLauro (D)
Gejdenson (D)
Kennelly (D)

**FLORIDA**
Bacchus, Jim (D)
Brown, Corrine (D)
Deutsch (D)
Gibbons (D)
Hastings (D)
Hutto (D)
Johnston, Harry (D)
Meek (D)
Peterson, Pete (D)
Thurman (D)

**GEORGIA**
Bishop (D)
Darden (D)
Johnson, Don (D)
Lewis, John (D)
McKinney (D)

**HAWAII**
Abercrombie (D)
Mink (D)

**IDAHO**
LaRocco (D)

**ILLINOIS**
Collins, Cardiss (D)
Costello (D)
Durbin (D)
Evans (D)
Gutierrez (D)
Poshard (D)
Reynolds (D)
Rostenkowski (D)
Rush (D)
Sangmeister (D)
Yates (D)

**INDIANA**
Hamilton (D)
Jacobs (D)
McCloskey (D)
Sharp (D)
Visclosky (D)

**IOWA**
Smith, Neal (D)
Hoyer (D)
Mfume (D)
Wynn (D)

**MASSACHUSETTS**
Frank, Barney (D)
Kennedy (D)
Markey (D)
Meehan (D)
Moakley (D)
Neal, Richard (D)
Olver (D)
Studds (D)

**MICHIGAN**
Barcia (D)
Bonior (D)
Carr (D)
Collins, Barbara-Rose (D)
Conyers (D)
Dingell (D)
Ford, William (D)
Kildee (D)
Levin (D)
Stupak (D)

**MONTANA**
Williams (D)

**NEBRASKA**
Hoagland (D)

**NEVADA**
Bilbray (D)

**NEW JERSEY**
Hughes (D)
Menendez (D)
Payne, Donald (D)
Torricelli (D)

**NEW MEXICO**
Richardson (D)

**NEW YORK**
Ackerman (D)
Engel (D)
Flake (D)
Hinchey (D)
Hochbrueckner (D)
LaFalce (D)
Lowey (D)
Manton (D)
Valentine (D)
Watt (D)

**NORTH DAKOTA**
Pomeroy (D)

**OHIO**
Applegate (D)
Brown, Sherrod (D)
Fingerhut (D)
Hall, Tony (D)
Kaptur (D)
Sawyer (D)
Stokes (D)
Strickland (D)

**OKLAHOMA**
Brewster (D)
McCurdy (D)
Synar (D)

**OREGON**
DeFazio (D)
Furse (D)
Kopetski (D)
Wyden (D)

**Christine Russell, the U.S. Chamber's liaison with the House, talks with Rep. Bill Sarpalius, D-Texas, about the tax and spending proposals being considered by a House-Senate conference committee. Sarpalius was among the House Democratic subcommittee chairmen who voted against the House budget-reconciliation bill despite the threat of losing their chairmanships.**

**KANSAS**
Glickman (D)
Slattery (D)

**KENTUCKY**
Barlow (D)
Mazzoli (D)
Natcher (D)

**LOUISIANA**
Fields, Cleo (D)
Jefferson (D)
Tauzin (D)

**MAINE**
Andrews, Thomas (D)

**MARYLAND**
Cardin (D)

**MINNESOTA**
Oberstar (D)
Penny (D)
Peterson, Collin (D)
Sabo (D)
Vento (D)

**MISSISSIPPI**
Montgomery (D)
Thompson (D)
Whitten (D)

**MISSOURI**
Clay (D)
Gephardt (D)
Volkmer (D)
Wheat (D)
McNulty (D)
Nadler (D)
Owens (D)
Rangel (D)
Schumer (D)
Serrano (D)
Slaughter (D)
Towns (D)
Velazquez (D)

**NORTH CAROLINA**
Clayton (D)
Hefner (D)
Lancaster (D)
Neal, Stephen (D)
Price, David (D)
Rose (D)

**PENNSYLVANIA**
Blackwell (D)
Borski (D)
Coyne (D)
Foglietta (D)
Kanjorski (D)
Klink (D)
Murphy (D)
Murtha (D)

**RHODE ISLAND**
Reed (D)

**SOUTH CAROLINA**
Clyburn (D)

*Continued on Page 87*

## Taxes

# Chamber Tries To Protect Small Firms

The U.S. Chamber of Commerce is urging its members to thank the 56 senators who supported a measure to protect certain small businesses from a proposed increase in individual tax rates.

More than 21 million small businesses operate as Subchapter S corporations, partnerships, and sole proprietorships and pay taxes on their profits at individual rates.

The Senate measure would have exempted the retained earnings of these businesses from the higher individual rate.

It was proposed as an amendment to the fiscal 1994 Senate budget-reconciliation bill by Sens. William V. Roth Jr., R-Del., Malcolm Wallop, R-Wyo., and Larry Pressler, R-S.D.

Clockwise from top left are Sens. William V. Roth Jr., Malcolm Wallop, and Larry Pressler, who sponsored the Senate amendment.

Because of an unusual Senate budget rule requiring 60 votes for passage, the measure was defeated despite strong support.

The U.S. Chamber had urged since early in the budget process that such a proposal be introduced and adopted.

The Senate bill, like the budget bill approved by the House, would increase the top effective individual tax rate to 39.6 percent from 31 percent currently. Both bills would also increase the corporate rate to 35 percent from the current 34 percent rate.

*Following are the 56 senators who voted to protect small businesses from a proposed increase in individual tax rates. Thank your senators if they voted this way. The address: U.S. Senate, Washington, D.C. 20510.*

## Senators Who Voted To Protect Small Firms

| | | | | | |
|---|---|---|---|---|---|
| Bennett | R-Utah | Exon | D-Neb. | Lugar | R-Ind. |
| Biden | D-Del. | Faircloth | R-N.C. | Mack | R-Fla. |
| Bingaman | D-N.M. | Gorton | R-Wash. | Mathews | D-Tenn. |
| Bond | R-Mo. | Gramm | R-Texas | McCain | R-Ariz. |
| Brown | R-Colo. | Grassley | R-Iowa | McConnell | R-Ky. |
| Burns | R-Mont. | Gregg | R-N.H. | Murkowski | R-Alaska |
| Chafee | R-R.I. | Hatch | R-Utah | Nickles | R-Okla. |
| Coats | R-Ind. | Hatfield | R-Ore. | Nunn | D-Ga. |
| Cochran | R-Miss. | Heflin | D-Ala. | Packwood | R-Ore. |
| Cohen | R-Maine | Helms | R-N.C. | Pressler | R-S.D. |
| Coverdell | R-Ga. | Hutchison | R-Texas | Roth | R-Del. |
| Craig | R-Idaho | Jeffords | R-Vt. | Shelby | D-Ala. |
| D'Amato | R-N.Y. | Kassebaum | R-Kan. | Simpson | R-Wyo. |
| Danforth | R-Mo. | Kempthorne | R-Idaho | Smith | R-N.H. |
| DeConcini | D-Ariz. | Kerrey, Bob | D-Neb. | Stevens | R-Alaska |
| Dodd | D-Conn. | Kerry, John | D-Mass. | Thurmond | R-S.C. |
| Dole | R-Kan. | Kohl | D-Wis. | Wallop | R-Wyo. |
| Domenici | R-N.M. | Lieberman | D-Conn. | Warner | R-Va. |
| Durenberger | R-Minn. | Lott | R-Miss. | | |

## Taxes And Spending

# House Vote

*Continued from Page 86*

Derrick (D)
Spratt (D)

**TENNESSEE**
Cooper (D)
Ford, Harold (D)
Gordon (D)
Lloyd (D)
Tanner (D)

**TEXAS**
Andrews, Michael (D)
Brooks (D)
Bryant (D)
Coleman (D)
de la Garza (D)
Frost (D)
Gonzalez (D)
Green (D)
Johnson, Eddie (D)
Ortiz (D)
Pickle (D)
Stenholm (D)
Tejeda (D)
Washington (D)

**UTAH**
Shepherd (D)

**VERMONT**
Sanders (I)

**VIRGINIA**
Boucher (D)
Byrne (D)
Moran (D)
Payne, Lewis (D)
Scott (D)
Sisisky (D)

**WASHINGTON**
Cantwell (D)
Dicks (D)
Foley (D)
Inslee (D)
Kreidler (D)
McDermott (D)
Swift (D)
Unsoeld (D)

**WEST VIRGINIA**
Mollohan (D)
Rahall (D)
Wise (D)

**WISCONSIN**
Barrett, Thomas (D)
Kleczka (D)
Obey (D)

### Not Voting

**CALIFORNIA**
Farr (D)*

**MICHIGAN**
Henry (R)

**WISCONSIN**
Barca (D)*

* Not a member then.

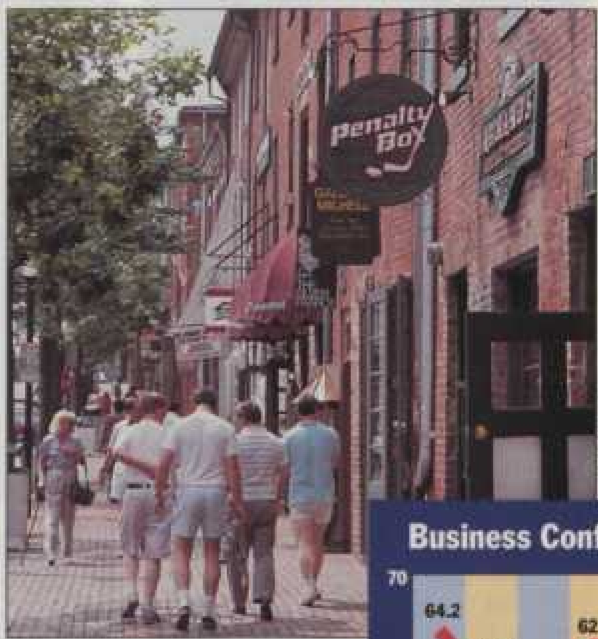
## Ballot Results

# Business Confidence In Economy Plummets

Business's confidence in the economy fell in June to its lowest level since December 1991, according to the latest Business Ballot poll of members of the U.S. Chamber of Commerce.

The Business Confidence Index, which is determined by poll respondents' answers to three bimonthly questions on their economic outlook, fell to 47.7 in June from 59.3 in April. The plunge was the sharpest in the three-year history of the index. The previous low for the index was in December 1991, when it was 39.3.

"Coming at a time when other indicators of the economy were beginning to show some improvement, the nosedive underscores the fragile nature of the economic situation," said Martin A. Regalia, vice president and chief economist of the U.S. Chamber. "The index reflects a growing disenchantment with the economic uncertainty caused by the prospects of higher taxes for deficit reduction and health-care reform."




The index is based on Chamber members' outlook for their firms' sales and employment and for the economy as a whole over the next six months. An index of 50 means the number of businesses expecting increases in the three areas is equal to the number expecting decreases.

Nearly 13,000 Chamber members responded to the latest poll.

Most telling was the sharp decline in respondents' economic outlook. For the June poll, only 15.5 percent said they expect the economy to improve over the next six months, compared with 42.2 percent in the April ballot. Meanwhile, 44.1 percent believe the economy is headed down—compared with just 24.8 percent in April—while 40.4 percent expect no change.

Concerning their own companies' prospects over the next six months, 37.8 percent of respondents expect their sales to rise, 23.7 percent believe sales will be down, and 38.5 percent expect no change over the next six months.

Only 19 percent expect to add employees, 18 percent expect to cut workers, and 63 percent believe their work forces will remain stable.


**The Business Confidence Index fell to its lowest level over the past year in the June Business Ballot poll of U.S. Chamber members.**

*Be sure to respond to this month's Business Ballot on the economic outlook and education and training issues.*

## Health Care

# Firms Oppose Government Management

With the country still awaiting the announcement by the administration of its health-care proposals, respondents to the latest Business Ballot poll had one clear message on the issue: Direct government management of the system is not the answer to its ills.

More than 88 percent of the U.S. Chamber of Commerce members responding to the June poll said they do not believe that health-care costs could be controlled effectively through direct government management. Nearly 83 percent said greater individual responsibility could control costs, while nearly 72 percent said competition among networks of hospitals and doctors could also be effective.

The Business Ballot is distributed bimonthly in a polybag with *Nation's Business* and *The Business Advocate*.

June poll respondents were divided on the effectiveness of price controls, with 39.8 percent agreeing that such controls on insurance would check costs, 46.7 percent disagreeing, and 13.5 percent unsure.

Equal percentages of respondents—43.7 percent—agreed and disagreed that price controls on hospitals and doctors would curb costs, while 12.6 percent were unsure.

Many respondents—35 percent—were uncertain about the effectiveness of requiring small companies to buy private health insurance through purchasing cooperatives, while 28.3 percent favored the concept, and nearly 37 percent opposed it.

The co-ops, a concept supported by the U.S. Chamber, would screen insurance plans, provide information on price and quality, and collect premiums. Participants in these purchasing pools, says the Chamber, would have about the same rates regardless of their employees' medical histories.

Nearly 70 percent of respondents said employers should play some role in how their employees are insured. Nineteen percent said employers should not play a role, and 11 percent were undecided.

Of the nearly 13,000 Chamber members responding to the poll, nearly 69 percent said they provide health insurance for their workers. And nearly 85 percent have fewer than 50 employees.

■ Trade

# Chamber Challenges NAFTA Ruling

The National Chamber Litigation Center is challenging a decision by a U.S. district court judge that could delay for months, or possibly years, implementation of the proposed North American Free Trade Agreement.

The litigation center, the public-policy law firm affiliated with the U.S. Chamber of Commerce, has joined other business organizations in filing a legal brief opposing the decision. The ruling requires the U.S. trade representative to prepare an environmental impact statement on the trade pact, which was negotiated by the U.S., Mexico, and Canada. Approval by the legislatures of all three countries is required for the agreement to be implemented.

The decision, by Judge Charles R. Richey in the U.S. District Court for the District of Columbia, suggests that the statement must be prepared before the president submits implementing legislation to Congress.

Richey based his decision on the National Environmental Policy Act, which requires that the environmental impact of legislation be assessed before implementation. However, the Chamber and others challenging the ruling say actions of the president are not subject to judicial review and that Congress granted the president the power to negotiate trade pacts under the Trade Act of 1974 and the Omnibus Trade and Competitiveness Act of 1988. In addition, they say the Administrative Procedures Act does not apply to the president.

The administration is also expected to challenge the ruling.

■ Leadership

# Kulick Is Named A Vice President

Chamber Vice President Jeffrey Kulick

Jeffrey Kulick has been named vice president of the U.S. Chamber of Commerce's planning and marketing division.

The director of planning and marketing since 1988, Kulick is responsible in his new role for planning, developing, and marketing Chamber membership programs. He also develops member benefits and serves as chairman of the Chamber's quality-management team on business processes.

Kulick joined the Chamber in 1980 as the budget and planning officer in the membership department. He helped establish the planning and marketing department and set up the Chamber's national accounts program for large firms. He also created a membership field sales force and launched the ConSern: Loans for Education program.

■ Education

# Loan Program Highlights Growth

In its first five years, the U.S. Chamber's ConSern: Loans for Education program has become one of the largest programs of its kind by satisfying America's need for private, credit-based education financing.

Since 1988, approximately 90,000 individuals have used the program's low-cost, unsecured loans to finance education expenses at colleges, universities, and private secondary schools across the nation. The amount of loans disbursed has risen to nearly $550 million.

The program is a joint project of University Support Services, Inc., and the U.S. Chamber of Commerce. It is available to employees working for U.S. Chamber member companies that sponsor the program as part of their employee benefits plans. The loans are based solely on a borrower's ability to repay; to be eligible, a borrower must earn at least $15,000 a year.

Recently, the program's partners have developed a state-of-the-art loan application and processing service that makes borrowing for education especially easy.

■ Management

# Fall Seminars Will Feature Popular Author

A leading management consultant who has had a book on the best-seller list for nearly 130 weeks will be among the experts featured in the fall seminar series sponsored by the Quality Learning Services Division of the U.S. Chamber of Commerce.

Stephen R. Covey, founder and chairman of the Covey Leadership Center, will conduct the Nov. 2 seminar, which will deal with creating a unique and enduring competitive advantage based on principle-centered leadership.

His book, *The Seven Habits of Highly Effective People* (Fireside/S&S), has been on *The New York Times'* paperback best-seller list since early 1991.

The Chamber's fall series of 10 seminars on "Total Quality Leadership" will be conducted from Sept. 16 to Dec. 16.

In addition to Covey, the top management authorities conducting the seminars will be A. Blanton Godfrey, G. Howland Blackiston, Rick Dmytrow, and Christopher Fay of the Juran Institute; Blaine Lee of the Covey center; and Peter Scholtes of Joiner Associates, Inc.

The schedule of dates and topics listed in the June *Business Advocate* is now firm, with the exception of the Covey seminar, which was confirmed for Nov. 2. Information on participating in the seminars as a host organization is available from the Quality Learning Services Division at 1-800-835-4730 or (202) 463-5940. For information on attending the seminars, contact your local chamber of commerce, or call QLS.

**Labor**

# House Votes To Ban Striker Replacement

The House voted 239-190 in mid-June to prohibit employers from permanently replacing workers who strike for economic reasons, such as disputes over wages and benefits.

The U.S. Chamber of Commerce strongly opposes the House-passed bill and similar Senate legislation. Sponsors of the Senate strike bill were considering floor action before Congress' Aug. 6 recess. The measures would encourage and promote strikes at union firms and make organizing nonunion companies much easier for labor, the business federation says.

Employers are already prohibited from replacing workers who strike over unfair labor practices.

If your representative voted against the bill, thank him or her. Express your disappointment if he or she voted for the bill.

The address is U.S. House of Representatives, Washington, D.C. 20515; the telephone number is (202) 225-3121.

**Reps. Pete Geren, D-Texas (left), and William F. Goodling, R-Pa., helped lead the fight against legislation that would bar employers from replacing workers who strike over wages and benefits.**

## Voted Against Bill

**ALABAMA**
Bachus, Spencer (R)
Callahan (R)
Everett (R)

**ARIZONA**
Kolbe (R)
Kyl (R)
Stump (R)

**ARKANSAS**
Dickey (R)
Hutchinson (R)
Lambert (D)

**CALIFORNIA**
Baker, Bill (R)
Calvert (R)
Cox (R)
Cunningham (R)
Dooley (D)
Doolittle (R)
Dornan (R)
Dreier (R)
Gallegly (R)
Herger (R)
Horn (R)
Huffington (R)
Hunter (R)
Kim (R)
Lewis, Jerry (R)
McCandless (R)
McKeon (R)
Moorhead (R)
Packard (R)
Pombo (R)
Rohrabacher (R)
Royce (R)
Thomas, William (R)

**COLORADO**
Allard (R)
Hefley (R)
McInnis (R)
Schaefer (R)

**CONNECTICUT**
Franks, Gary (R)
Johnson, Nancy (R)
Shays (R)

**DELAWARE**
Castle (R)

**FLORIDA**
Bilirakis (R)
Canady (R)
Fowler (R)
Gibbons (D)
Goss (R)
Hutto (D)
Lewis, Tom (R)
McCollum (R)
Mica (R)
Miller, Dan (R)
Ros-Lehtinen (R)
Shaw (R)
Stearns (R)
Young, Bill (R)

**GEORGIA**
Collins, Michael (R)
Darden (D)
Deal (D)
Gingrich (R)
Johnson, Don (D)
Kingston (R)
Linder (R)
Rowland (D)

**IDAHO**
Crapo (R)

**ILLINOIS**
Crane (R)
Ewing (R)
Fawell (R)
Hastert (R)
Hyde (R)
Manzullo (R)
Michel (R)
Porter (R)

**INDIANA**
Burton (R)
Buyer (R)
Myers, John (R)

**IOWA**
Grandy (R)
Leach (R)
Lightfoot (R)
Nussle (R)

**KANSAS**
Meyers, Jan (R)
Roberts (R)

**KENTUCKY**
Bunning (R)
Rogers (R)

**LOUISIANA**
Baker, Richard (R)
Hayes, James A. (D)
Livingston (R)
McCrery (R)
Tauzin (D)

**MAINE**
Snowe (R)

**MARYLAND**
Bartlett (R)
Gilchrest (R)
Morella (R)

**MASSACHUSETTS**
Blute (R)
Torkildsen (R)

**MICHIGAN**
Camp (R)
Hoekstra (R)
Knollenberg (R)
Smith, Nick (R)
Upton (R)

**MINNESOTA**
Grams (R)
Ramstad (R)

**MISSISSIPPI**
Montgomery (D)
Parker (D)
Taylor, Gene (D)
Whitten (D)

**MISSOURI**
Emerson (R)
Hancock (R)
Talent (R)

**NEBRASKA**
Barrett, Bill (R)
Bereuter (R)

**NEVADA**
Vucanovich (R)

**NEW HAMPSHIRE**
Zeliff (R)

**NEW JERSEY**
Gallo (R)
Roukema (R)
Saxton (R)
Zimmer (R)

**NEW MEXICO**
Schiff (R)
Skeen (R)

**NEW YORK**
Houghton (R)
Molinari (R)
Paxon (R)
Walsh (R)

**NORTH CAROLINA**
Ballenger (R)
Coble (R)
Lancaster (D)
McMillan (R)
Neal, Stephen (D)
Taylor, Charles (R)
Valentine (D)

**OHIO**
Boehner (R)
Gillmor (R)
Hobson (R)
Hoke (R)
Kasich (R)
Oxley (R)
Portman (R)
Pryce, Deborah (R)

**OKLAHOMA**
Brewster (D)
English, Glenn (D)
Inhofe (R)
Istook (R)
McCurdy (D)

**OREGON**
Smith, Robert F. (R)

**PENNSYLVANIA**
Clinger (R)
Gekas (R)
Goodling (R)
Greenwood (R)
Ridge (R)
Shuster (R)
Walker (R)

**RHODE ISLAND**
Machtley (R)

**SOUTH CAROLINA**
Derrick (D)
Inglis (R)
Ravenel (R)
Spence (R)
Spratt (D)

**TENNESSEE**
Cooper (D)
Duncan (R)
Quillen (R)
Sundquist (R)

**TEXAS**
Archer (R)
Armey (R)
Barton (R)
Bonilla (R)

Combest (R)
de la Garza (D)
DeLay (R)
Fields, Jack (R)
Geren (D)
Hall, Ralph (D)
Johnson, Sam (R)
Ortiz (D)
Pickle (D)
Smith, Lamar (R)
Stenholm (D)
Tejeda (D)

**UTAH**
Hansen (R)

**VIRGINIA**
Bateman (R)
Bliley (R)
Goodlatte (R)
Payne, Lewis (D)
Pickett (D)
Sisisky (D)
Wolf (R)

**WASHINGTON**
Dunn (R)

**WISCONSIN**
Gunderson (R)
Klug (R)
Petri (R)
Roth, Toby (R)
Sensenbrenner (R)

**WYOMING**
Thomas, Craig (R)

**KENTUCKY**
Baesler (D)
Barlow (D)
Mazzoli (D)
Natcher (D)

**LOUISIANA**
Fields, Cleo (D)
Jefferson (D)
Peterson, Collin (D)
Sabo (D)
Vento (D)

**MISSISSIPPI**
Thompson (D)

**MISSOURI**
Clay (D)
Danner (D)

## Voted For Bill

**ALABAMA**
Bevill (D)
Browder (D)
Cramer (D)
Hilliard (D)

**ALASKA**
Young, Don (R)

**ARIZONA**
Coppersmith (D)
English, Karan (D)
Pastor (D)

**ARKANSAS**
Thornton (D)

**CALIFORNIA**
Becerra (D)
Beilenson (D)
Berman (D)
Brown, George (D)
Condit (D)
Dellums (D)
Dixon (D)
Edwards, Don (D)
Eshoo (D)
Fazio (D)
Filner (D)
Hamburg (D)
Harman (D)
Lantos (D)
Lehman (D)
Martinez (D)
Matsui (D)
Miller, George (D)
Mineta (D)
Pelosi (D)
Roybal-Allard (D)
Schenk (D)
Stark (D)
Torres (D)
Tucker (D)
Waters (D)
Waxman (D)
Woolsey (D)

**COLORADO**
Schroeder (D)
Skaggs (D)

**CONNECTICUT**
DeLauro (D)
Gejdenson (D)
Kennelly (D)

**FLORIDA**
Bacchus, Jim (D)
Brown, Corrine (D)
Deutsch (D)
Diaz-Balart (R)
Hastings (D)
Johnston, Harry (D)
Meek (D)
Peterson, Pete (D)
Thurman (D)

**GEORGIA**
Bishop (D)
Lewis, John (D)
McKinney (D)

**HAWAII**
Abercrombie (D)
Mink (D)

**IDAHO**
LaRocco (D)

**ILLINOIS**
Collins, Cardiss (D)
Costello (D)
Durbin (D)
Evans (D)
Gutierrez (D)
Lipinski (D)
Poshard (D)
Reynolds (D)
Rostenkowski (D)
Rush (D)
Sangmeister (D)
Yates (D)

**INDIANA**
Hamilton (D)
Jacobs (D)
Long (D)
McCloskey (D)
Roemer (D)
Sharp (D)
Visclosky (D)

**IOWA**
Smith, Neal (D)

**KANSAS**
Glickman (D)
Slattery (D)

**MAINE**
Andrews, Thomas (D)

**MARYLAND**
Bentley (R)
Cardin (D)
Hoyer (D)
Mfume (D)
Wynn (D)

**MASSACHUSETTS**
Frank, Barney (D)
Kennedy (D)
Markey (D)
Meehan (D)
Moakley (D)
Neal, Richard (D)
Olver (D)
Studds (D)

**MICHIGAN**
Barcia (D)
Bonior (D)
Carr (D)
Collins, Barbara-Rose (D)
Conyers (D)
Dingell (D)
Ford, William (D)
Kildee (D)
Levin (D)
Stupak (D)

**MINNESOTA**
Minge (D)
Oberstar (D)
Penny (D)
Gephardt (D)
Skelton (D)
Volkmer (D)
Wheat (D)

**MONTANA**
Williams (D)

**NEBRASKA**
Hoagland (D)

**NEVADA**
Bilbray (D)

**NEW HAMPSHIRE**
Swett (D)

**NEW JERSEY**
Andrews, Robert (D)
Franks, Bob (R)
Hughes (D)
Klein (D)
Menendez (D)
Pallone (D)
Payne, Donald (D)
Smith, Christopher (R)
Torricelli (D)

**NEW MEXICO**
Richardson (D)

**NEW YORK**
Ackerman (D)
Boehlert (R)
Engel (D)
Fish (R)
Flake (D)
Gilman (R)
Hinchey (D)
Hochbrueckner (D)
King (R)
LaFalce (D)
Lazio (R)
Levy (R)
Lowey (D)
Maloney (D)
Manton (D)
McHugh (R)
McNulty (D)
Nadler (D)
Owens (D)
Quinn (R)
Schumer (D)
Serrano (D)
Slaughter (D)
Towns (D)
Velazquez (D)

**NORTH CAROLINA**
Clayton (D)
Hefner (D)
Price, David (D)
Rose (D)
Watt (D)

**NORTH DAKOTA**
Pomeroy (D)

**OHIO**
Applegate (D)
Brown, Sherrod (D)
Fingerhut (D)
Hall, Tony (D)
Kaptur (D)
Mann (D)
Regula (R)
Sawyer (D)
Stokes (D)
Strickland (D)
Traficant (D)

**OKLAHOMA**
Synar (D)

**OREGON**
DeFazio (D)
Furse (D)
Kopetski (D)
Wyden (D)

**PENNSYLVANIA**
Blackwell (D)
Borski (D)
Coyne (D)
Foglietta (D)
Holden (D)
Kanjorski (D)
Klink (D)
Margolies-Mezvinsky (D)
McDade (R)
McHale (D)
Murphy (D)
Murtha (D)
Santorum (R)
Weldon (R)

**RHODE ISLAND**
Reed (D)

**SOUTH CAROLINA**
Clyburn (D)

**SOUTH DAKOTA**
Johnson, Tim (D)

**TENNESSEE**
Clement (D)
Ford, Harold (D)
Gordon (D)
Lloyd (D)
Tanner (D)

**TEXAS**
Andrews, Mike (D)
Brooks (D)
Bryant (D)
Chapman (D)
Coleman (D)
Edwards, Chet (D)
Frost (D)
Gonzalez (D)
Green (D)
Johnson, Eddie (D)
Laughlin (D)
Sarpalius (D)
Washington (D)
Wilson (D)

**UTAH**
Orton (D)
Shepherd (D)

**VERMONT**
Sanders (I)

**VIRGINIA**
Byrne (D)
Moran (D)
Scott (D)

**WASHINGTON**
Cantwell (D)
Dicks (D)
Inslee (D)
Kreidler (D)
McDermott (D)
Swift (D)
Unsoeld (D)

**WEST VIRGINIA**
Mollohan (D)
Rahall (D)
Wise (D)

**WISCONSIN**
Barca (D)
Barrett, Thomas (D)
Kleczka (D)
Obey (D)

## Not Voting

**CALIFORNIA**
Farr (D)*

**MICHIGAN**
Henry (R)

**NEW YORK**
Rangel (D)
Solomon (R)

**VIRGINIA**
Boucher (D)

**WASHINGTON**
Foley (D)

* Was not a member at time of vote.

## Directors' Actions

# Board Opposes Bills To Hike Minimum Wage

The U.S. Chamber of Commerce is opposed to a direct increase in the minimum wage and to setting its level through an indexing arrangement.

The business federation's board of directors adopted that position at its June meeting.

*(The board's actions on economic policy appear in this month's cover story on Page 82 and in the separate story on Page 83.)*

The minimum-wage decision was based on a recommendation from the U.S. Chamber's Labor Relations Committee, which cited studies showing that raising the mandated pay floor is detrimental to the economy and to job creation.

Bills pending in Congress would raise the federal minimum wage from its current level of $4.25 an hour to as high as $6.75 over three years and would use the Consumer Price Index or the average factory wage as the basis for annual, automatic raises in the future. President Clinton has also expressed support for a higher wage floor.

Studies documenting the anti-jobs impact of minimum-wage increases include those of David Neumark, assistant professor of economics at the University of Pennsylvania and faculty research fellow at the National Bureau of Economic Research. He estimated that a 10 percent increase in the minimum wage reduces teenage employment by nearly 2 percent and jobs for young adults generally by 1.5 to 2 percent.


**Ira Magaziner, a senior adviser to President Clinton, discusses the work of the administration's health-care task force with the Chamber's directors. At left are board Chairman Ivan W. Gorr (far left) and William T. Archey, Chamber senior vice president for policy and congressional affairs.**

In its report to the board on the federal wage, the Chamber Labor Relations Committee cited research showing that "the majority of minimum-wage earners are young workers, often holding down their first jobs."

At its June meeting, the Chamber's board also took action in these areas:

### Health Care

The board expanded its guidelines for health-care reform to put in place "a sound set of principles to provide a responsible business position for health-care reform and to anchor our lobbying effort" when President Clinton announces details of his plan to overhaul the nation's health-care system.

The guidelines are designed to achieve "an affordable reform plan that does not overburden business and makes consumers price-sensitive through shared costs," the Health and Employee Benefits Committee said in its report on the issue.

### Education And Training

The board adopted a position against direct government loans to students in higher education. The board's statement also said there is no evidence that the federal government is prepared to administer the multibillion-dollar program or that direct lending for the student loans would be cost-effective.

### Environmental Risks

An addition to Chamber policy on environmental quality was approved. It states: "Regulation of public health and environmental quality should be based on assessment of relative risks. Such risk assessments need to be based on the best data and scientific methods available, and the results should be clearly communicated to the public."

In recommending the change, the Chamber's Environment Committee noted that environmental regulations have too often been issued without accompanying analyses of risks, and "the result has been overcontrol and overregulation of inconsequential risks."

### Procurement Policy

The directors adopted a policy declaration calling for "an appropriate level of federal R&D funding to spur the development of dual-use technologies" that would have both defense and commercial applications.

"Such funding should in most cases be channeled through private-sector entities to encourage a continuous supply of important dual-use technologies and to take full advantage of the research capabilities and technical competency of private enterprise."

In addition, the policy declaration said, "the federal government must adopt fundamental structural changes in its procurement and regulatory practices to remove impediments to the development of dual-use technologies by both the defense and commercial markets and to eliminate the barriers between these markets."

## Voting Records

*How They Voted*, an annual publication indicating how members of the U.S. House and Senate voted on issues critical to business during the previous session of Congress, is available from the U.S. Chamber of Commerce.

For a free copy of the publication or for information on ordering bulk quantities, contact the Chamber's Office of Membership Grassroots Management at (202) 463-5604.

## Communications

# Information Network Nears Launch

The U.S. Chamber of Commerce expects to launch its Grassroots Action Information Network (GAIN) Sept. 1.

The network is designed to give business people a more effective voice in Washington on issues that affect them.

GAIN will serve individual U.S. Chamber members and state, metropolitan, and legislatively active local chambers of commerce through the latest in computer technology. This equipment will be used to track legislation and communicate information on business-related legislative issues to network members.

GAIN will also be used to communicate business's positions on issues to lawmakers on Capitol Hill.

U.S. Chamber members should have received a letter recently from the organization's president, Richard L. Lesher, detailing the GAIN program. The letter included a coupon to be mailed back to the Chamber by members who wish to participate. There is no cost to join. If you did not receive a GAIN coupon, call (202) 463-5604.

A follow-up questionnaire will be sent to members who return the coupon to gauge their interest in specific legislative areas. It will also ask demographic questions, such as the number of employees of companies owned by the Chamber member and that member's congressional district.

GAIN
GRASSROOTS ACTION INFORMATION NETWORK

U.S. Chamber of Commerce Federation

The information will be collected in GAIN's computer system and will allow the Chamber to better educate members on their areas of interest. Periodically, the Chamber will fax or mail information to GAIN participants.

Should the Chamber need members to take action on specific issues to help influence votes in Congress, for example, the federation will call GAIN participants interested in that issue. Members will have several options through the network for voicing their concern to their lawmakers, including being connected by phone to their lawmaker's office, sending a telegram, leaving a voice-mail message, or receiving sample letters to use in drafting personal letters to their lawmakers.

"GAIN will help us better serve Chamber members," says Linda Leinbach Mays, executive director of the Chamber's Office of Membership Grassroots Management. "Through GAIN, we'll be able to communicate and update members on issues quicker. And that should help the Chamber—and its members—be a more effective participant in the legislative process in Washington."

## ICC Rates

# Trucking-Charge Issue Advances

Business is halfway to correcting a situation that could ultimately cost companies that shipped goods by now-defunct trucking firms more than $30 billion.

On July 1, the Senate approved a bill sponsored by Sen. J. James Exon, D-Neb., and backed by the U.S. Chamber of Commerce, that would address the so-called freight-undercharge problem.

The Chamber is urging the House to approve similar legislation introduced by Reps. Norman Y. Mineta, D-Calif., and Bud Shuster, R-Pa.

The undercharge problem arose after passage of the Motor Carrier Act of 1980, which allowed freight carriers to charge shipping rates different from rates on file with the federal Interstate Commerce Commission (ICC). The law also required that they file those negotiated rates with the agency.

Some bankrupt trucking firms have been billing their former customers for the difference between lower rates they negotiated with the companies—which those companies have already paid—and the tariff rate specified by the ICC.

The problem arose because many trucking firms did not file the lower rates, and for the past decade auditors for creditors of bankrupt freight carriers have been hitting freight shippers with undercharge claims. In some cases, auditors are claiming carriers filed new rates incorrectly.

The Chamber received numerous calls from members about the problem and became heavily involved in the controversy during the last Congress. It helped win bipartisan support for House and Senate measures that would correct the undercharge problem for freight shippers, but Congress adjourned before the legislation could come up for a vote.

The Chamber is working with a coalition of businesses and associations in its fight this year. It calls the Senate-passed legislation and the similar House bill an "equitable, common-sense approach to resolving the undercharge crisis."

*Urge your representative to co-sponsor the Mineta-Shuster bill to resolve the shipping problem. Write him or her at the U.S. House of Representatives, Washington, D.C. 20515.*

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## Budget Debate

# Chamber Fights To Kill High-Tax Bill

*Continued from Page 84*

The House approved President Clinton's proposal for taxing the heat content of fuel as measured in British thermal units. The Senate substituted a levy of 4.3 cents per gallon of transportation fuels, a reduction in various tax incentives that the House had approved to encourage business investment, and an expansion of the income-tax surcharge to cover capital gains.

The House BTU tax would raise $71 billion, and the Senate's alternative proposal for taxing fuels would bring in $22 billion. That gap indicates that energy taxes will be the most difficult issue for the conference to resolve.

The Chamber's economic analysts believe that the final bill will call for $50 billion to $60 billion in energy taxes through a combination of broad-based levies at a reduced scale from the House proposal and a transportation-fuels tax at a higher level than the Senate suggested.

In opposing both the House and the Senate energy-tax proposals, the Chamber noted that the BTU tax "would not only raise costs for producers and users but would also have an inflationary impact throughout the economy."

The Chamber's concern about the ratio of spending cuts to tax increases stems from an unfortunately long federal record of fast-rising revenues being outpaced by even faster-rising spending.

Chamber officials point out that the federal government's income of $92.5 billion covered its expenditures in 1960, but while income now exceeds $1.14 trillion, outlays now exceed revenue by $330 billion.

Three tax increases over the past 11 years have been accompanied by pledges that the income would be used to reduce the deficit, but the red-ink spending went up each time.

Despite those tax increases, the national debt—the accumulation of annual deficits—went from $900 billion to nearly $4 trillion over the same period.

***The Chamber's concern about the ratio of spending cuts to tax increases stems from an unfortunately long federal record of fast-rising revenues being outpaced by even faster-rising spending.***

It is that experience that the Chamber wants Congress to consider as the administration and its legislative allies pledge that higher taxes will lead to deficit reduction.

The importance of having spending cuts outweigh tax increases in any deficit-reduction plan was stressed to the Chamber board at its recent meeting by Sen. John C. Danforth, R-Mo., a senior member of the Senate Finance Committee, which handles tax issues.

The spending cut-tax increase ratio should be the first consideration in evaluating a deficit-reduction plan, he said, and any proposal that does not meet a $2-to-$1 ratio "is a bad idea."

And, Danforth said, effective spending reduction cannot be achieved without strong action on entitlement spending, which now accounts for more than half of the federal budget, compared with 30 percent in the 1960s.

Entitlements—benefits paid to all who demonstrate eligibility—and interest on the national debt now represent 67 percent of outlays, and finding 100 percent of the necessary budget cuts in the remaining one-third of the budget is "the closest thing there is to a mathematical impossibility," Danforth said.

While both houses of Congress said they had dealt with the entitlements issue in their budget bills, U.S. Chamber economists question whether any significant results were actually achieved.

The Chamber also questions the effectiveness of the two approaches to entitlement controls that the conference committee is attempting to reconcile. The House plan would require the president to address actual and projected overruns in entitlement spending, but he could do so by proposing tax increases or borrowing, as well as spending cuts. That procedure would amount to "only illusory control of the deficit," the Chamber economists said. They added that the Senate's approach to deficit reduction is even weaker than the House's.

## Exchanging Views

PHOTOS: LAURENCE LEVIN

Recent administration visitors to the Chamber have included Laura D. Tyson (above), chairman of the Council of Economic Advisers, who addressed a Small Business Week event at the organization's headquarters. At upper right, Chamber President Richard L. Lesher, right, talks with Vice President Al Gore and SBA Administrator Erskine Bowles before the event. At lower right, U.S. Trade Representative Mickey Kantor addresses a group of Latin American chambers of commerce meeting at the Chamber.

## Call Now

# The Paperwork Campaign

Lawmakers in Washington appear to be getting serious about controlling paperwork required of businesses and individuals, which, according to the U.S. Chamber of Commerce, costs the economy more than $250 billion a year.

In the Senate, bipartisan support is growing for legislation to reauthorize and strengthen the Paperwork Reduction Act of 1980, and a bill similar to the Senate measure is expected to be introduced soon in the House by Rep. Norman Sisisky, D-Va.

Twenty-six co-sponsors have signed on to the Senate bill, S. 560, sponsored by Sens. Sam Nunn, D-Ga., Dale Bumpers, D-Ark., and John C. Danforth, R-Mo. Meanwhile, Sisisky is working to sign up co-sponsors for his reauthorization measure, which he hopes to introduce before Congress begins a monthlong recess Aug. 9.

The U.S. Chamber, which says many of the current paperwork requests from federal agencies are duplicative and unnecessary, is helping to lead a coalition of businesses and organizations in support of the measures.

PHOTO: THE WHITE HOUSE

Sally Katzen

In a related matter, Sally Katzen was confirmed by the Senate in June as administrator of the Office of Information and Regulatory Affairs (OIRA). The office was set up under the 1980 paperwork law to review federal agencies' regulations and paperwork requests to weigh their projected costs and benefits. The administrator's position had been vacant since the paperwork act expired in 1989.

Under the law, OIRA could require agencies to rewrite proposed rules that would adversely affect small businesses. But lacking reauthorization and an administrator over the past four years, the office has been largely ineffective.

Both the Senate and the House paperwork-reduction measures would reauthorize the act for five years and require a 5 percent annual reduction in government paperwork. They would also strengthen OIRA's ability to ensure that agencies comply with the law.

*Call your senators and representative and urge them to co-sponsor S. 560 and the Sisisky proposal, which would reauthorize and strengthen the Paperwork Reduction Act. Dial senators at (202) 224-3121, representatives at (202) 225-3121.*